

MODERN COMPTROLLERSHIP

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MODERN COMPTROLLERSHIP

INTRODUCTION

Federal public sector management practices and policies evolve continuously in response to changing socio-economic conditions and shifting public policy priorities. In recent years, globalization, technological progress and evolving federalism have altered Canadians' expectations about the quality of services they receive from the federal government and have shifted the focus of public management towards a more responsive, citizen-centred delivery of government programs and services. Since 1997, the federal government has been engaged in a number of initiatives to reform public sector management and to fundamentally transform federal administration and governance.

This document aims to provide an overview of one of the major medium-term initiatives:⁽¹⁾ modern comptrollership, which aims to reform and modernize the government's accounting and financial management in order to provide for more effective program and service delivery.

Government comptrollership was traditionally seen as the exclusive preserve and responsibility of the government's financial and accounting specialists, and as focussing primarily on recording and reporting financial transactions and ensuring their proper authorization. Modern comptrollership, in contrast, is concerned less with the purely transactional aspects of government administration and more with efficient resource management, decision making and achievement of results. Rather than a strict adherence to centrally prescribed rules and regulations, modern comptrollership is more a set of principles driven by a philosophy that combines a strong commitment to central standards, values and achievement of planned results, with flexibility regarding the processes and approaches employed in achieving them.

(1) The six medium-term initiatives are: Citizen-centred Service Delivery, Government of Canada On-Line, Modern Comptrollership, Improved Reporting to Parliament, Program Integrity, and Developing an Exemplary Workplace.

DEVELOPING THE CONCEPT

As the roles and responsibilities of the federal government evolved over the years, there was a growing awareness that current administrative policies and practices were no longer adequate to meet Canadians' changing needs and expectations. More specifically, there have been long-standing concerns about federal management, policies and practices. For almost 40 years the federal government commissioned studies, reviews and Royal Commissions to examine its financial management and control regime:

- 1962: Royal Commission on Government Organization (Glassco Commission);
- 1974-1976: Office of the Auditor General of Canada, Financial Management and Control Study;
- 1979: Royal Commission on Financial Management and Accountability (Lambert Commission); and
- 1987: Office of the Auditor General of Canada, Financial Management and Control Study.

The consensus was that existing federal comptrollership practices could no longer effectively support government decision-making processes, nor could they ensure accountability for program and financial results. Notably lacking were comprehensive financial management and accounting systems that would enable financial information to be linked with non-financial (operational) data in order to measure program costs and performance in relation to program objectives.

In 1997, the Prime Minister conferred upon the Treasury Board and its Secretariat an enhanced role as the government's management board, with the mandate to support departments and agencies in improving their managerial practices. Out of this mandate came *Results for Canadians: A Management Framework for the Government of Canada*,⁽²⁾ which sets out the government's vision for modernizing the Public Service of Canada. *Results for Canadians* outlines the framework for management and describes the agenda for change in the

(2) Treasury Board of Canada Secretariat (TBS), *Results for Canadians: A Management Framework for the Government of Canada*, Ottawa, 30 March 2000; available on the TBS Web site at: http://www.tbs-sct.gc.ca/res_can/siglist_e.asp.

way that departments and agencies manage and deliver their programs and services. This framework and agenda:

- recognize that the federal government exists to serve Canadians and that a “citizen focus” must therefore be built into all government activities, programs and services;
- highlight the importance of sound public service values;
- focus on the achievement of results for Canadians; and
- promote discipline, due diligence and value for money in the use of public funds.

An essential element of the federal government’s vision for modern management is modern comptrollership. Accordingly, in 1997, the government created the Independent Review Panel on Modernization of Comptrollership in the Government of Canada. The Panel, composed of respected accountants, financial specialists and other related experts, was asked to recommend practical ways to integrate modern comptrollership concepts into federal management practices. After extensive consultations with a wide range of executives and professionals within the federal government and relevant professional associations, the *Report of the Independent Review Panel on the Modernization of Comptrollership*⁽³⁾ was released.

The Panel concluded that, in light of changing economic, social and political circumstances, comptrollership could no longer remain a specialist function limited to accounting and financial administration. Instead, program managers and financial specialists should work together to prioritize, plan, set goals and achieve desired results. As defined in the Panel’s report, modern comptrollership is essentially a set of principles founded on the belief that effective stewardship of public resources and assets must become part of every manager’s thinking and behaviour. To exercise responsible stewardship, a manager’s decision making should incorporate the following key elements:

- **integrated performance information** – timely financial data linked to information on program performance and results;
- **sound risk management** – clear understanding of the risk environment, the organization’s capacity to prioritize and manage those risks, and the manager’s role in mitigating the risks;

(3) Independent Review Panel on Modernization of Comptrollership in the Government of Canada, *Report of the Independent Review Panel on the Modernization of Comptrollership in the Government of Canada*, Ottawa, 1997; available on the TBS Web site at: http://www.tbs-sct.gc.ca/cmo_mfc/resources2/review_panel/riip_e.asp.

- **rigorous stewardship and appropriate control** – comprehensive departmental systems of delegation and control that are conducive to innovative delivery, consistent with capabilities, and appropriate to the level of risk; and
- **shared values and ethics** – alignment of organizational culture and mandate with values and ethics of the Public Service.

Given the challenges involved in fundamentally changing the management culture in the federal government, the Panel acknowledged that it would likely take between 7 and 10 years to systematically transform the government's comptrollership function. This process would be divided into three distinct phases:⁽⁴⁾

1. **Foundation Phase** (1st to 3rd year): government departments and agencies build up awareness of modern comptrollership, assess the state of their current management practices, establish benchmarks to measure progress, and begin to identify and address priorities.
2. **Transition Phase** (4th to 6th year): organizations begin to see measurable improvements in management practices, and focus on building modern management skills and competencies that are in line with their identified areas of greatest need. The relationship between functional specialists and line managers evolves into a partnership focussed on achieving results.
3. **Sustaining Phase** (7th to 10th year): modern comptrollership practices are the norm in federal organizations. Stewardship is a core management function, management is principles-based, the department is a learning organization, program results are measurable and costed, and improvement is continuous.

FROM PILOT PROJECT TO GOVERNMENT-WIDE IMPLEMENTATION

In 1998, in response to the Panel's recommendations, the Treasury Board approved the Modern Comptrollership Initiative (MCI). This three-year pilot project corresponded to the foundation phase of the process outlined above and was designed to test new concepts and new tools for management decision making in a group of lead departments.⁽⁵⁾ The Initiative aimed to: develop standards and practices for integrating financial and non-financial performance information, and communicating the data to those who need it; properly assess and

(4) Treasury Board of Canada Secretariat, *Modern Comptrollership Practices: Toward Management Excellence*, Ottawa, April 2003, pp. 2-3.

(5) In 1999, five departments agreed to participate in the MCI. The number of participating departments grew to 15 by 2001.

manage risk; ensure appropriate control systems; and improve procurement practices, the management of assets and real property, and other programs and financial management activities. The MCI involved the participation of all managers, not just financial officers, and was expected to become an integral part of every management activity. Following the completion of the pilot project in May 2001, Treasury Board ministers announced in June 2001 the implementation of modern comptrollership on a government-wide basis, with a total of 88 departments and agencies participating in the reform of their management policies and practices.⁽⁶⁾

The TBS has the lead role in the ongoing three-year implementation process. Acting on the Panel's recommendations, the TBS set up three advisory committees (private sector, deputy ministers, assistant deputy ministers) and developed a strategic plan to build up and sustain government-wide commitment to modern comptrollership. The plan includes upgrading the whole suite of TBS management policies and frameworks, developing new policies that incorporate modern comptrollership principles, and setting up centres of expertise. It further aims to instill modern comptrollership principles as widely as possible in the awareness of managers by developing modern comptrollership curricula and training programs, and by clarifying responsibilities and accountabilities for every government manager.

Between the 1998-1999 and 2003-2004 fiscal years, the Treasury Board allocated almost \$39 million in innovation funding to assist departments and agencies in implementing modern comptrollership reform.⁽⁷⁾ All participating organizations now sustain the implementation through internal reallocation of resources.

DEPARTMENTAL RESPONSIBILITIES

While central agencies such as the TBS play a leading role in the implementation of modern comptrollership by establishing appropriate standards and providing direction, counsel and support to the government as a whole, the responsibility for implementation ultimately lies with the departments and agencies themselves. Deputy ministers and senior

(6) Office of the Auditor General of Canada, *December 2002 Report of the Auditor General*, Chapter 5, "Financial Management and Control in the Government of Canada," Ottawa, 2002, p. 4.

(7) Treasury Board of Canada Secretariat, *Modern Comptrollership Initiative: A Progress Report on Government-Wide Implementation*, Ottawa, March 2003, p. 14, and Innovations Fund, 1990-2004 at: http://www.tbs-sct.gc.ca/cmo_mfc/funding_e.asp.

departmental officials must provide leadership and create a working environment that encourages the adoption of modern comptrollership practices. They must plan and organize departmental resources to achieve objectives, and report on their organization's progress.

According to the Independent Review Panel, the success of efforts to modernize comptrollership will depend on the following:

- the way in which senior departmental officials create and maintain a climate that fosters effective comptrollership (leadership);
- the clarity with which responsibilities for achieving the changes needed in modern management practices are assigned (accountability); and
- the degree to which managerial and professional capacities are developed and deployed and people are motivated to support the necessity, direction, and intent of change (motivating people).

A. Leadership

At the departmental level, it is the deputy head who must exercise strategic leadership to implement reform. The deputy head has overall responsibility for creating an environment and organizational structure that contribute to the establishment of modern comptrollership. He or she must evaluate the organization's current comptrollership capabilities against the requirements of modern comptrollership, and then secure from the senior management team a commitment to carry out the necessary reforms. Moreover, deputy heads must be able at all times to clearly communicate to their staff the comptrollership priorities and provide leadership throughout the reform process.

B. Accountability

Another critical element in reforming comptrollership is ensuring that distinct lines of responsibility and accountability exist amongst all key participants, such as executives, specialists, professionals, departments and central agencies. Modern comptrollership calls for clearer linkages between program delivery, management initiatives and the overall departmental agenda. It also requires clearer linkages between program performance and management compensation and rewards. The departmental executive team and program managers must have an explicit understanding that they are ultimately accountable for the results they achieve.

To this end, departments and agencies must develop, maintain and monitor results-based plans for modern management, and also require that performance agreements of executives at every level of management reflect individual accountability for implementing modern management practices.

C. Motivating People

Finally, departments and agencies must ensure that all staff, including functional specialists and line managers, possess the skills and capacities that are required to implement modern comptrollership. In other words, departments and agencies must provide the training and tools to enable their staff to apply modern comptrollership principles to real-time management decisions.

STATUS OF COMPTROLLERSHIP MODERNIZATION⁽⁸⁾

The government-wide implementation of modern comptrollership has been under way since the completion of the MCI pilot project in May 2001. The 15 pilot departments, which have the longest history of involvement, have demonstrated the most progress and generally have more achievements to report. Of the 73 departments that subsequently joined the initiative, many are still in the early stages of the modernization process and are engaged in activities such as raising awareness, assessing the state of their comptrollership practices (see Appendix 2), training staff and developing plans. For those in the later stages, the extent of the implementation varies according to the nature and needs of the organization, and changes in management practices become more pronounced.

Based on information contained in the TBS's March 2003 progress report, key accomplishments and ongoing challenges of implementing modern comptrollership at the department and agency level as of 31 December 2002 were as follows:

- 90% of departments and agencies were participating (i.e., 88 departments and agencies);
- 90% of organizations reported that their executive committees reviewed the progress of comptrollership modernization on (at least) a quarterly basis;

(8) *Ibid.*, p. 18.

- some departments were establishing integrated management change agendas;
- all departments were sustaining comptrollership modernization from the internal reallocation of resources;
- deputy ministers were reflecting their commitment to modern comptrollership reform in their performance management agreements with the Clerk of the Privy Council; most organizations reported that senior executives did the same;
- 55 organizations were implementing their plans for change, or were scheduled to complete a plan by March 2003;
- over 1,000 managers had been involved in capacity assessments;
- approximately 5,800 participants had been involved in awareness-building sessions;
- a learning curriculum on modern comptrollership had been developed; and
- a modern comptrollership rewards and recognition program was under development.

Remaining comptrollership challenges are the following:

- maintaining strategic leadership for management change and momentum in implementing modern comptrollership;
- maintaining clear accountability for results throughout the implementation period; and
- reaching middle-level and front-line managers and translating modern comptrollership principles into day-to-day decision making.

AUDITOR GENERAL'S ASSESSMENT OF FINANCIAL MANAGEMENT AND CONTROL IN GOVERNMENT⁽⁹⁾

Chapter 5 of the Auditor General's December 2002 report focuses on financial management and control in the federal government. The Office of the Auditor General had undertaken a number of previous audits that monitored the government's progress in modernizing the comptrollership function and implementing accrual accounting. The December 2002 report noted progress in some areas but found that departments needed to further

(9) Office of the Auditor General of Canada, *December 2002 Report of the Auditor General*, Chapter 5, "Financial Management and Control in the Government of Canada," Ottawa, 2002.

strengthen their internal control systems and improve the quality of their financial information. The government also needed to resolve the issue of using accrual accounting for its financial statements and deciding whether to convert budgetary appropriations to full accrual basis. The report recommended that central agencies and departments provide more leadership and support to modern comptrollership efforts. It emphasized that modern comptrollership means much more than just adopting new management policies, practices and systems; it also means fostering a corporate management culture that integrates the new financial information on program costs and results into daily decision making.

CONCLUSION

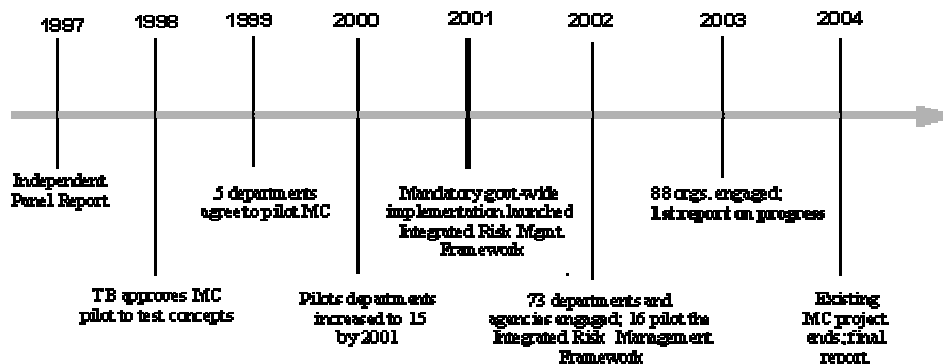
The current attempt to reform the comptrollership function in the federal government is an ambitious undertaking with very high stakes. Many essential elements have been implemented, such as the renewal of the suite of TBS management policies, the ongoing move toward full accrual accounting, and the completion of the *Integrated Risk Management Framework*. Many others, however, have still to be put in place; for example, more progress is needed in strengthening departmental internal controls and improving the quality of financial information. Moreover, even if all plans to improve financial management and upgrade financial systems are implemented, they cannot in themselves ensure that financial management and control in the federal government is effective. Modern comptrollership will be successfully implemented only when government-wide and departmental management culture fully integrates the new policies, practices and information into day-to-day decision making on program objectives, costs and results.

APPENDIX 1

TIMELINE OF MODERN COMPTROLLERSHIP REFORMS

- October 1997: Report of the Independent Review Panel made public.
- January 1998: TBS establishes Modern Comptrollership Initiative (MCI) to strengthen management capabilities of departments and agencies.
- March 1998: 5 departments agree to participate in modern comptrollership pilot project.
- March 2000: the President of the Treasury Board tables *Results for Canadians: A Management Framework for the Government of Canada*.
- March 2000-2001: an additional 10 departments join the pilot project.
- June 2001: the President of the Treasury Board announces that after a three-year foundation phase, modern comptrollership is to be extended to all federal departments and agencies. The Treasury Board endorses the *Integrated Risk Management Framework* (IRMF) as a guidance tool for departments.
- May 2001-2002: 73 departments and agencies participate in MCI in 2002; 16 departments agree to participate in the IRMF.
- March 2003: 88 organizations participate in MCI; first progress report on modern comptrollership tabled.
- March 2004: Existing modern comptrollership project to end, and tabling of final report.

Figure 1: Modern Comptrollership Timeline



APPENDIX 2

CAPACITY ASSESSMENT MODEL⁽¹⁾

The modern comptrollership initiative began in 1998 with the initial participation of five pilot departments. Subsequently, phase 1 of the initiative expanded to include 15 departments. Effective June 2001, phase 2 included all government departments and agencies.

As part of the initiative, most participating organizations were required to execute a self-assessment of their comptrollership capabilities. Departments and agencies rated themselves according to 33 elements, or comptrollership capabilities, which are grouped into seven key categories:

- **Strategic leadership:**⁽²⁾
 - **Leadership commitment:** awareness and commitment of deputy head and senior management to establishing and implementing a modern management practices environment.
 - **Managerial commitment:** awareness of managers of their modern management practices responsibilities, and commitment to implementing them.
 - **Senior departmental functional authorities:** extent to which senior departmental functional authorities and supporting organizations are used for objective commentary and independent advice.
 - **Planning:** strategic, business and operational planning, and the linkages between them and to resource allocation.
 - **Resource management:** mechanisms for ranking program options, identifying funding requirements and allocating resources, and budgeting and forecasting.
 - **Management of partnerships:** partnerships are used extensively by the organization in support of service delivery by leveraging the capabilities of external stakeholders, partners, and other government organizations.
 - **Client relationship management:** commitment to consciously strengthening relationships with clients.

(1) http://www.tbs-sct.gc.ca/cmo_mfc/Toolkit2/cap_eval_brochure/cab_e.asp.

(2) http://www.tbs-sct.gc.ca/cmo_mfc/Toolkit2/cap_check/cap_check_e.asp.

- **Motivated people:**
 - **Competencies in modern management practices:** extent to which modern management practices competencies are defined and managers have access to training.
 - **Employee satisfaction:** mechanisms in place to monitor employee morale and staff relations.
 - **Enabling work environment:** practices for communication, wellness, safety and support that enable staff to provide client-focussed delivery while reaching their full potential.
 - **Sustainable workforce:** the energies of staff are managed wisely to help sustain the organization's viability.
 - **Valuing employees' contributions:** extent to which the organizational culture fosters staff participation, team building, sharing of ideas, risk taking, innovation, and continuous learning; and rewards or provides incentives for such behaviour.

- **Clear accountability:**
 - **Clarity of responsibilities and organization:** clarity of assignment of responsibilities and accountabilities throughout the organization.
 - **Performance agreements and evaluation:** extent to which the achievement of financial and operating results is embedded in performance agreements.
 - **Specialist support:** availability of top-flight counsel to help managers make judgment calls on modern management and operational issues.
 - **External reporting:** extent to which Parliamentary, central agency and key stakeholder information reporting requirements are met.

- **Shared values and ethics:**
 - **Values and ethics framework:** leadership of policies and activities that visibly support the ethical stewardship of public resources and give priority to "modern management practices."

- **Integrated performance information:**
 - **Integrated departmental performance reporting:** key measures exist to monitor overall organization-wide performance and best-value results.
 - **Operating information:** measures and systems to monitor service quality and efficiency of program delivery.
 - **Measuring client satisfaction:** utilization of client survey information on satisfaction levels, and importance of services.

- **Service standards:** monitoring against client service standards and maintaining and updating standards.
 - **Evaluation information:** utilization of non-financial information related to program effectiveness and outcomes.
 - **Financial information:** reliable financial information is available in a timely and useful fashion.
 - **Cost management information:** mechanisms available for using activity/product/results-based costs.
- **Mature risk management:**
 - **Integrated risk management:** measures are in place to identify, assess, understand, act on, and communicate risk issues in a corporate and systematic fashion.
 - **Integrated management control framework:** appropriateness of management controls in place, and linkages between controls through an integrated control framework.
- **Rigorous stewardship:**
 - **Business process improvement:** extent to which processes are clearly understood, are conducted in a uniform fashion, and are continuously improved in line with best practices.
 - **Management tools and techniques:** range of analytical techniques (e.g., cost-benefit, sensitivity, life cycle, benchmarking) available to managers.
 - **Knowledge management:** performance/management information is readily accessible to internal and external users via technology, and lessons learned are shared across the organization.
 - **Accounting practices:** records of financial transactions are kept on a consistent and useful basis for purposes of audit and reporting, and are consistent with generally accepted accounting practices and the Financial Information Strategy (FIS).
 - **Management of assets:** assets are managed and utilized efficiently based on a life-cycle approach, records of assets are maintained, and assets are accounted for on an accrual basis according to GAAP/FIS.
 - **Internal audit:** strong internal audit program is in place, and audit results are a critical input to management decision-making.
 - **External audit:** Process for ensuring adequate attention to results and recommendations of external audits of department operations.

The 33 elements, or comptrollership capabilities, are assessed on a scale from 1 (not yet in application in the department or agency) to 5 (model of best practice). The role of these self-assessments is to enable senior management in departments and agencies to: bring

together all the elements of the management framework; compare them against best practices; provide an organization-wide snapshot of management capabilities; and develop an action plan for improving management practices. Each department or agency must first demonstrate that it possesses a basic level of strength or capacity in each comptrollership area before deciding to move up to a higher modern comptrollership level and strengthening its management capabilities. Based on the findings of the self-assessment and in accordance with the organization's size, structure and mandate, the department or agency decides on priorities and identifies which of its management capabilities require improvement. It will then prepare an action plan to upgrade its management capabilities towards modern comptrollership standards.

The self-assessment or capacity assessment process will vary according to the size and structure of the organization in question. In general, a joint consultant-departmental team carries out the assessment, ideally under the supervision of a steering committee. The team gathers data from individual interviews, workshop discussions, questionnaires, and a review of documentation. The results are then consolidated and validated in follow-up group sessions, after which the team presents the findings to senior management. The entire process may take from one to six months, or more for large departments.

The goal of reforming and strengthening the modern comptrollership function throughout the federal government does not imply that all departments and agencies will ultimately have the same modern comptrollership capabilities. The importance of the comptrollership function varies according to individual departments' size, organizational structure and responsibilities. For example, the comptrollership capabilities required for a small agency, government board or tribunal are necessarily quite different from those of a large department such as Public Works and Government Services Canada, which, as a service provider to other departments, must possess comptrollership capabilities able to support responsibilities ranging from the delivery of information technology services to managing real estate portfolios, undertaking internal audits and offering translation services.

As of October 2003, 74 out of 94 departments and agencies had completed a capacity assessment of their comptrollership capabilities, and 17 organizations were in the process of completing them. In addition, 52 out of 94 departments, agencies and other organizations had completed their action plans and were implementing them.⁽³⁾

(3) http://www.tbs-sct.gc.ca/cmo_mfc/resources2/IF_FI/status_e.asp.