# Office of the Auditor General of Canada

# Comptrollership Capacity Assessment and Action Plan

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

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# Comptrollership Capacity Assessment and Action Plan

## Introduction

All departments and agencies listed in Schedule I.1 of the *Financial Administration Act* are required by the Treasury Board of Canada to complete a Modern Comptrollership Capacity Assessment by 31 March 2004. This report provides the results of the capacity assessment and an action plan for the Office.

We used our Financial Management Capability (FMC) model for the capacity assessment. We developed the FMC model in 1999 with input from an independent advisory committee. The model defines the objectives of financial management as follows:

- ensure that managers have support for decision making;
- ensure the availability of timely, relevant, and reliable information, financial and non-financial;
- contribute to managing risks of the organization;
- help the organization make efficient, effective, and economical use of resources;
- enable managers to account for their use of resources;
- establish a supportive control environment; and
- enable the organization to comply with authorities and safeguard its assets.

In 2003 the Treasury Board Secretariat introduced the Management Accountability Framework. The Framework is intended to bring together the principal elements of Modern Comptrollership, Human Resources Modernization, Service Improvement, and Government On-Line. As we adapt our management systems and practices, we will take into consideration the Framework.

## Modern Comptrollership at the Office

The *Auditor General Act,* the *Financial Administration Act*, and other acts and orders-in-council set out the duties of the Auditor General and the Commissioner of the Environment and Sustainable Development. These duties relate to legislative auditing and monitoring federal departments and agencies, Crown corporations, territorial governments, and other entities that include international organizations.

The Office is different from departments and agencies—it is independent from the government and reports directly to Parliament. Independence is assured by a broad legislative mandate, freedom from certain government controls over our spending and staffing, and a 10-year mandate for the Auditor General.

In 2003–04, the Office had planned spending of $75.2 million and planned use of 560 full-time equivalent employees. It has regional offices in Vancouver, Edmonton, Montréal, and Halifax.

# Capacity Assessment

## Approach

### Advisory Committee

An Advisory Committee, chaired by Jean Ste-Marie, Assistant Auditor General and made up of senior management, was established to provide direction for the capacity assessment.
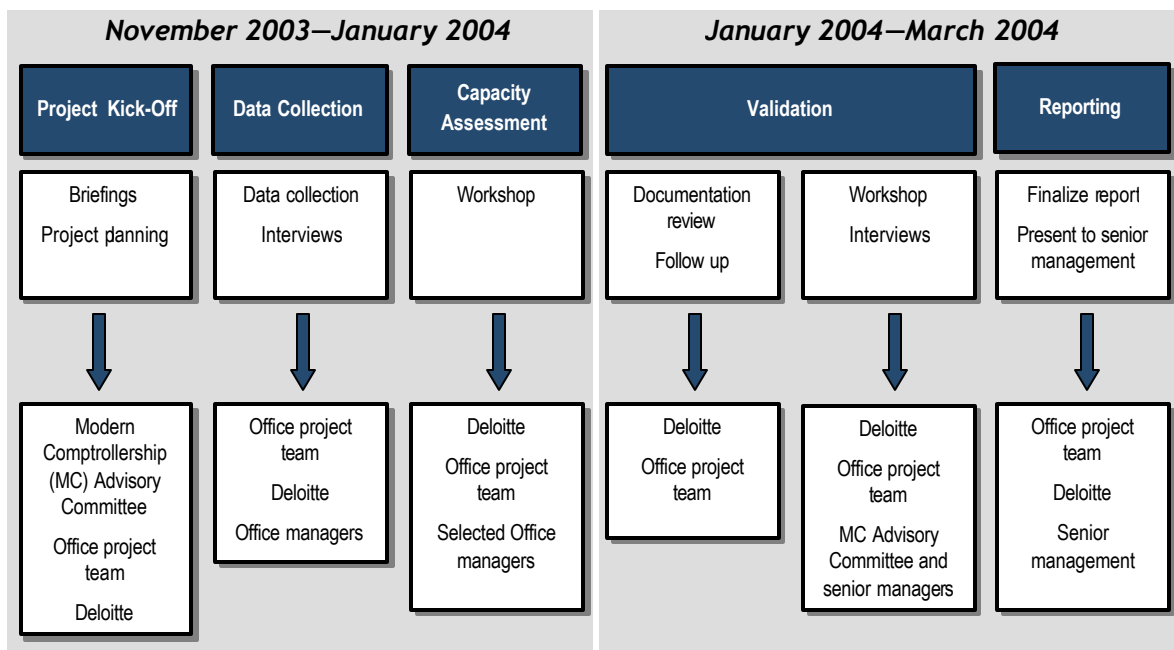
### Independent Facilitator

To help us with the capacity assessment, we hired an independent facilitator. After a competitive bidding process, Deloitte was awarded the contract.

### Process

The capacity assessment was not an audit. It looked at the Office's functions and organizational units and involved different levels of management. The facilitators gathered documentation, interviewed senior management, and conducted a workshop to support the assessment. They validated the results of the assessment with the Advisory Committee and selected senior managers.

**Internal Audit.** Our internal audit team observed the capacity assessment. In 2007-08, they plan to audit our action plan, once it is implemented.

## Process and Timeline

| November 2003—January 2004 | | | January 2004—March 2004 | | |
|---|---|---|---|---|---|
| **Project Kick-Off** | **Data Collection** | **Capacity Assessment** | **Validation** | | **Reporting** |
| Briefings<br><br>Project planning | Data collection<br><br>Interviews | Workshop | Documentation review<br><br>Follow up | Workshop<br><br>Interviews | Finalize report<br><br>Present to senior management |
| Modern Comptrollership (MC) Advisory Committee<br><br>Office project team<br><br>Deloitte | Office project team<br><br>Deloitte<br><br>Office managers | Deloitte<br><br>Office project team<br><br>Selected Office managers | Deloitte<br><br>Office project team | Deloitte<br><br>Office project team<br><br>MC Advisory Committee and senior managers | Office project team<br><br>Deloitte<br><br>Senior management |

# Expectations

The FMC model is made up of 25 key process areas divided across five levels:

1. **Start-up.** Start-up level.

2. **Control.** Compliance and control.

3. **Information.** Measure how results are used and manage resources efficiently and economically.

4. **Managed.** Balance the efficient and economical use of resources with the quality and effectiveness of results.

5. **Optimizing.** Continuous improvement and learning.

One of the principles of the FMC model is that not every organization needs to meet all five levels of financial management capability.

The Office decided that, at a minimum, it should meet all level 2 and 3 key process areas. We included the key process areas in levels 4 and 5 in the capacity assessment with the expectation that we would assess the benefits and costs of acting on any opportunities for improvements identified in the assessment.

# Results Summary

The capacity assessment confirmed that the Office

- has a culture that supports effective financial management and control;
- over time, has developed a robust quality management regime; and
- encourages continual improvement and external review of its practices and processes.

Our capacity assessment results are summarized in Exhibit 1.

**Exhibit 1  Results of the Office's capacity assessment**

| | Project Team Assessment | | | | | | |
|---|---|---|---|---|---|---|---|
| | Risk Management and Control | | Information | | Management of Resources | | |
| | Organization Structure and Support | Risk Management and Control Framework | Information Systems Management | Financial and Non-Financial Performance Information | Strategic Planning, Analysis and Decision Support | Results and Quality Management | Resources and Process Management |
| **Level 5** | | | | 🟨 Prospective Information | 🟢 Strategic Improvement Targets | 🟨 Quality Improvement | 🟨 Optimizing Financial Management and Performance of Resources |
| **Level 4** | | | 🟨 Information Management | 🟨 Organization Performance Information | 🟢 Enhanced Decision Support | 🟨 Quantitative Process Management | 🟨 Business Line Management |
| **Level 3** | 🟢 Financial Management Environment | 🟨 Risk Management | 🟨 Integrated Financial Management Systems | 🟨 Management Information and Reporting | 🟢 Performance Measurement | 🟢 Quality Measurement | 🟢 Cost Management  🟢 Resource Management |
| **Level 2** | 🟢 Organization Control Environment | 🟢 Internal Controls Management | 🟢 Data Management  🟢 General Accounting | 🟢 Stewardship Reporting | 🟢 Planning and Budgeting  🟢 Funding | | 🟢 Operations Control |
| | 🟢 Substantially met | 🟨 Partially met | 🔺 Not met | | | | |

# Action Plan

We developed a three-year action plan to address opportunities for improvements identified in the assessment, which supports seven key process areas:

**Level 3**

1. Risk Management
2. Integrated Financial Management Systems
3. Management Information and Reporting

**Level 4**

4. Information Management
5. Business Line Management

**Level 5**

6. Quality Improvement
7. Optimizing Financial Management and Performance of Resources

### Level 3—Information Level

The action items for level 3 key process areas, when implemented, should result in the Office achieving its goal of meeting all level 2 and 3 key process areas. We plan to complete these action items by the fall of 2006.

### Levels 4 and 5—Managed and Optimizing Levels

The Office identified seven level 4 and 5 key process areas as "partially met." The action plan does not include opportunities for improvement for three of these areas: Organization Performance Information, Prospective Information, and Quantitative Process Management. The nature of our operations does not warrant improving our financial management capability in these areas.

We included four action items to support level 4 and 5 key process areas. The Office expects that further work will be needed to fully meet the expectations of these areas. We will continue to monitor our progress and develop action plans for further improvements, as appropriate.

### Other Opportunities for Improvement

We identified other opportunities for improvement and communicated them to the responsible managers. These opportunities are in key process areas that were assessed as "substantially met" and will be part of continuous improvement initiatives.

# 1. Action Plan—Risk Management (Level 3)

**Purpose.** To ensure that risks to the organization's ability to achieve its objectives are understood and are managed in a systematic, comprehensive, and cost-effective way throughout the organization.

**Key information.** The Office's risk management framework has evolved over time. Numerous elements of effective risk management are in place; however, these elements are not managed in a systematic and comprehensive manner.

**Action.** The Office is improving its integrated risk management practices by integrating existing systems and practices for identifying, assessing, and reporting risks. Phase I focusses on formalizing a framework, approving policy, and assessing identified risks. Phase II will focus on establishing risk tolerances and finding a balance between risks and controls, communication and training, and reporting.

**Target completion dates and next steps.** Phase I will be completed by 31 March 2004 and phase II by 31 March 2005.

We expect that the key process area for Risk Management will be "substantively met" with completion of the improvements to our integrated risk management practices.

# 2. Action Plan—Integrated Financial Management Systems (Level 3)

**Purpose.** To establish the linkages and alignment between financial and operational (or non-financial) systems. These linkages are necessary to reduce the cost of acquiring data and to promote data consistency. They also reduce the number of systems that need to be accessed to develop information.

**Key information.** The Office integrates financial and non-financial information in various systems: time reporting, planning, Oracle Financials, and product costing. However, data from more than one system is not easily accessible to support information management and management reporting.

**Action.** The Office is improving the integration of its financial systems by implementing a data warehouse. It will provide a foundation for strengthening information management and management reporting. Phase I focusses on designing the data warehouse; phase II will focus on populating the warehouse.

**Target completion dates and next steps.** Phase I will be completed by 30 April 2004 and phase II by 31 October 2004.

We expect that the key process area for Integrated Financial Management Systems will be "substantively met" with the implementation of a data warehouse.

## 3. Action Plan—Management Information and Reporting (Level 3)

**Purpose.** To provide managers with the information they need to manage day-to-day operations, support decision making, and demonstrate accountability.

Such information is essential for managers to fulfill their accountability and stewardship obligations, establish the necessary linkages between financial and non-financial information, and understand and demonstrate the organization's performance (results achieved with resources consumed).

**Key information.** The Office provides managers with financial and non-financial information in electronic and paper reports.  However, information needs to be provided in a more accessible, timely, and integrated manner.

**Action.** The Office is improving its management information and reporting. Phase I focusses on executive reporting using existing systems and databases. Phase II will expand executive reporting, and phase III will provide managers with online information.  The reporting requirements for all three phases address financial, human resources, and other non-financial management information.  (Phases II and III build on the action plan "Integrated Financial Management Systems" on data warehousing.)

**Target completion dates and next steps.** Phase I will be completed by 30 September 2004, phase II by 30 September 2005, and phase III by 30 September 2006.

We expect that the key process area for Management Information and Reporting will be "substantively met" with improvements to management information and reporting.

## 4. Action Plan—Information Management (Level 4)

**Purpose.** To provide support to the organization by managing information and knowledge as assets. This includes providing technical assistance to managers so that they can analyze and use the available information.

**Key information.** The Office's existing information systems are in electronic and paper formats.  In 2003 Treasury Board approved its policy on Managing Government Information. The policy covers such issues as using electronic systems to create and manage information, using multi-channel service delivery (Internet), and sharing information across organizations.

**Action.** The Office is strengthening its information management systems and practices. Over the next three years we will build core information management processes, and develop a strategic plan to implement the policy. Also, we will implement tools that support information management (document and content management systems).

**Target completion date and next steps.** This action plan will be completed by 31 March 2007.

However, this is an area of ongoing effort. We expect the key process area for Information Management to evolve.  We will monitor this evolution and develop action plans for improvements, as appropriate.

## 5. Action Plan—Business Line Management (Level 4)

**Purpose.** To determine the optimum balance among competing business objectives (e.g., cost, quality, and schedule performance) and to streamline the process for providing a service or producing a product.

**Key information.** The Office's performance measurement and reporting system focusses on its one business line—legislative auditing.  Legislative auditing is supported by six product lines, of which the four largest are value-for-money audits; financial audits of Crown corporations, territorial governments, and other organizations; financial audit of the summary financial statements of the Government of Canada; and special examinations of Crown corporations. We have made improvements to our performance measurement and reporting systems in recent years.

**Action.** The Office is strengthening its results chain by identifying intermediate results for its four largest product lines and identifying the key indicators and targets.  We will develop indicators in phase I; in phase II we will establish a baseline and, where appropriate, set targets.

**Target completion dates and next steps.** Phase I will be completed by 31 March 2005 and phase II by 31 March 2006.

However, this is an area of ongoing effort. Performance measurement and reporting is an activity that we expect will continue to evolve.  We will continue monitoring this evolution and develop action plans to make further improvements, as appropriate.

## 6. Action Plan—Quality Improvement (Level 5)

**Purpose.** To reduce the cost of achieving a given level of quality by refining processes to get maximum value for money.  The emphasis is on eliminating anything in the organization's processes that could compromise or reduce the quality of its programs, products, or services.

This involves analyzing the factors that have resulted in poor quality in the past and ensuring that these factors will not cause quality problems in the future.

**Key information.** External and internal reviews have consistently rated the quality of the Office's audit products as high.  The external review of our value-for-money (VFM) product line, completed in 2003–04, made suggestions that would strengthen our methodology and practices, improve their quality, and help us better manage the costs of this work.

**Action.** The Office has developed an action plan to deal with the suggestions made in the 2003-04 external review of our VFM product line. The action plan includes commitments to better manage the costs of this work, including refining our methodology and practices for the scoping of VFM audits; refining our approach to lessons-learned activities, which take place at the end of each VFM audit, to strengthen the implementation of these lessons; and developing guidance and monitoring activities to address the level of effort normally associated with each stage of VFM audits.

**Target completion date and next steps.** This action plan will be completed by 30 June 2005.

However, this is an area of ongoing effort. Other improvement opportunities for the key process area Quality Improvement were not identified in this assessment. We think there is room for further improvement and will continue to seek opportunities for improvement in our business practices.

## 7. Action Plan—Optimizing Financial Management and Performance of Resources (Level 5)

**Purpose.** To continuously look for opportunities to learn new ways and adopt new techniques and new technologies in order to measurably improve the efficiency and effectiveness of the organization's management processes and practices (to be the "best in class"), and to optimize the efficient and economical use of limited resources to minimize costs and maximize payback.

**Key information.** The Office's strengths were identified in this assessment: we have a culture that supports effective financial management and control; over time, we have developed a robust quality management regime; and we encourage continual improvement and external review of our practices and processes. We also identified actions to strengthen our financial management capability systems and practices and optimize financial management and performance of resources.

**Action.** The Office is leading a peer review of the General Accounting Office (GAO) of the United States of America. This will provide a learning opportunity that could improve our legislative audits.

**Target completion date and next steps.** The peer review of the GAO will be completed by April 2005.

However, this is an area of ongoing effort. Other improvements for the key process area Optimizing Financial Management and Performance of Resources were not identified in this assessment. We think there is room for further improvement and will continue to seek opportunities for improvement in our ongoing business practices.

# Capacity Assessment Results

The remainder of this report provides more information on the capacity assessment results. We included opportunities for improvement that we considered more significant practice improvements in the Action Plan.

There were a few opportunities for improvement that, if implemented, would strengthen key process areas. They were assessed as "substantially met." These opportunities have been brought to the attention of the appropriate managers and will be addressed on an ongoing basis.

## Organization Structure, and Support

| | Not Met | Partially Met | Substantially Met |
|---|---|---|---|
| Organization Control Environment—Level 2 | | | 🟢 |
| Financial Management Environment—Level 3 | | | 🟢 |

**Key information**
- The Office has an entrenched climate and culture that supports effective control practices and awareness.
- Managers share an understanding of the Office's control objectives.
- The Office has an accountability framework that outlines roles and responsibilities for resource allocation and budget management.
- The Office has an extensive array of financial management policies and procedures.
- The Office's Code of Values, Ethics, and Professional Conduct was revised in 2003–04 to reflect new Treasury Board Secretariat guidelines.
- In 2003–04, the Office began training newly promoted managers in financial management.

**Opportunities for improvement**
- None

# Risk Management and Control Framework

| | Not Met | Partially Met | Substantially Met |
|---|---|---|---|
| Internal Controls Management—Level 2 | | | 🟢 |
| Risk Management—Level 3 | | 🟨 | |

## Key information

- The Office has an effective control framework to provide senior management with a high level of assurance that all transactions are completely and accurately recorded on a timely basis, assets are safeguarded, and resources are received and consumed in accordance with applicable laws and regulations.

- The Office has numerous elements of effective risk management in place; however, these elements are not governed and managed in a systematic and comprehensive manner.

- The greatest risk facing the Office is an erosion of its credibility among parliamentarians, departments, and the public.

- The Office is developing an Integrated Risk Management framework.

## Opportunities for improvement

- Strengthen the way the Office manages internal controls by adopting emerging best practices (see Ontario's *Bill 198* and the United States' *Sarbanes-Oxley Act*) and implementing a single, integrated view of the Internal Control framework.  This will be addressed as a continuous improvement initiative.

- Strengthen the Office's Risk Management framework.  This is part of the Action Plan.

# Information Systems Management

| | Not Met | Partially Met | Substantially Met |
|---|---|---|---|
| Data Management—Level 2 | | | 🟢 |
| General Accounting—Level 2 | | | 🟢 |
| Integrated Financial Management Systems—Level 3 | | 🟨 | |
| Information Management—Level 4 | | 🟨 | |

## Key information

- The Office has structured and adequate procedures in place to ensure that data in its management information systems are controlled and safeguarded.

- The Office has policies, procedures, and practices in place to provide reasonable assurance that financial transactions are accurate, complete, and recorded in a timely manner.

- The Office integrates financial and non-financial information in various systems: time reporting, planning, Oracle Financials, and product costing. However, data from more than one system is not easily accessible to support information management and management reporting.

- The Office's existing information systems are in electronic and paper formats. In 2003 Treasury Board approved its policy on Managing Government Information. The policy covers such issues as using electronic systems to create and manage information, using multi-channel service delivery (Internet), and sharing information across organizations.

## Opportunities for improvement

- Strengthen the Office's integration of financial management systems by implementing data warehousing. This is part of the Action Plan.

- Strengthen the Office's information management capacity. This is part of the Action Plan.

# Financial and Non-Financial Performance Information

| | Not Met | Partially Met | Substantially Met |
|---|---|---|---|
| Stewardship Reporting—Level 2 | | | 🟢 |
| Management Information and Reporting—Level 3 | | 🟨 | |
| Organization Performance Information—Level 4 | | 🟨 | |
| Prospective Information—Level 5 | | 🟨 | |

## Key information

- The Office has established and clearly communicated responsibilities, processes, and production deadlines for external reporting requirements.

- The Office measures and reports product cost variances. Given the nature of our operations, there is limited opportunity to use statistical techniques to provide further analysis.

- The Office does not have a framework to ensure that the Executive Committee receives information for strategic decisions regularly; however, many components do exist.

## Opportunities for improvement

- Improve the Office's management information and reporting by completing the new Executive Committee summary and the Management Reporting Project. This is part of the Action Plan.

- Although the Office only "partially met" the key process areas for Organization Performance Information and Prospective Information, there is no significant benefit for the Office to further invest in these areas.

# Strategic Planning, Analysis, and Decision Support

| | Not Met | Partially Met | Substantially Met |
|---|---|---|---|
| Planning and Budgeting—Level 2 | | | 🟢 |
| Funding—Level 2 | | | 🟢 |
| Performance Measurement—Level 3 | | | 🟢 |
| Enhanced Decision Support—Level 4 | | | 🟢 |
| Strategic Improvement Targets—Level 5 | | | 🟢 |

## Key information

- The Office's annual operational planning and budgeting process is well established, widely communicated, and linked into its strategic plan.

- The Office has established sound processes and practices for outlining funding requirements and preparing funding requests and status reports.

- The Office has a well developed results chain (measures, indicators, and systems) that monitors and measures performance. The Office is strengthening its intermediate results.

- The Office uses elements of enhanced decision support.

- Senior management is aware of how important it is to incorporate the Auditor General's focus areas into strategic and operational planning processes.

## Opportunities for improvement

- Strengthen the Office's enhanced decision support systems and practices by standardizing the requirements for all requests for decisions by the Executive Committee. This will be addressed as a continuous improvement initiative.

# Results and Quality Management

| | Not Met | Partially Met | Substantially Met |
|---|---|---|---|
| Quality Measurement—Level 3 | | | 🟢 |
| Quantitative Process Management—Level 4 | | 🟨 | |
| Quality Improvement—Level 5 | | 🟨 | |

## Key information

- The Office has a strong quality management and measurement system.

- The Office measures audit process cost, quality, and scheduling, which enables managers to make cost effective interventions.

- External and internal reviews have consistently rated the quality of the Office's audit products as high.

## Opportunities for improvement

- Although the Office only partially met the key process area for Quantitative Process Management, there is no significant benefit for the Office to further invest in this area.

- Strengthen the Office's quality improvement systems and practices. This is part of the Action Plan.

# Resources and Process Management

| | Not Met | Partially Met | Substantially Met |
|---|---|---|---|
| Operations Control—Level 2 | | | 🟢 |
| Cost Management—Level 3 | | | 🟢 |
| Resource Management—Level 3 | | | 🟢 |
| Business Line Management—Level 4 | | 🟨 | |
| Optimizing Financial Management and Performance of Resources—Level 5 | | 🟨 | |

## Key information

- Office managers have numerous processes, tools, and practices to effectively track the progress of desired results and resources used.

- The Office has all the elements of a comprehensive resource management framework.

- The Office has a performance measurement and reporting system. Significant improvements have been made in recent years. This activity is expected to evolve.

- The Office ensures that effective and efficient financial management controls are rooted in the organization; however, it is unclear whether it ensures that resources are optimized and costs minimized.

## Opportunities for improvement

- Strengthen the Office's resource management by improving the staff scheduling process and enabling system. This work is currently underway.

- Improve the Office's business line management by strengthening performance indicators and measures for product lines. This is part of the Action Plan.

- Improve the Office's optimizing financial management and performance of resources by participating in external reviews of other legislative auditors. This is part of the Action Plan.