



Western Economic Diversification de l'économie
Diversification Canada de l'Ouest Canada

Audit of Integrated Risk Management

WESTERN ECONOMIC DIVERSIFICATION CANADA

Audit and Evaluation Branch

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1.0 Executive Summary

- 1.1 The audit of Integrated Risk Management was identified in Western Economic Diversification Canada's (WD) approved 2009-12 Risk Based Audit Plan. Treasury Board Secretariat outlined the need for departments to develop a Corporate Risk Profile to identify the key risks to be managed at a senior level as a means of enabling the achievement of departmental priorities and objectives.
- 1.2 The objective of the audit was to provide assurance on the adequacy and effectiveness of integrated risk management at WD.
- 1.3 Relevant documents were reviewed, and interviews conducted with key personnel in the regions and at headquarters. The audit covered the period from 2008 to 2010; however pre-2008 work on the development of a Corporate Risk Profile was also reviewed as a means of providing historical context.

Findings and Conclusions

- 1.4 The audit found that WD has made significant progress in moving from an informal entity-wide risk management process to a more rigorous, documented process. WD has a well established risk management process at the activity (e.g. project) level.
- 1.5 The audit recommended that WD take steps to further integrate its risk management processes with its existing corporate planning and reporting processes. These steps will ensure that risk management is not a separate and disconnected process.
- 1.6 The audit further recommended that WD finalize and approve its draft Risk Management Framework and develop appropriate tools for both management and staff to help guide them in their risk management activities. This will help "de-mystify" the concept of risk management across the department.

Statement of Assurance

- 1.7 In my professional judgement as Chief Audit Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the conclusions provided and contained in this report on the effectiveness of the Integrated Risk Management framework at WD.
- 1.8 The assurance is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed upon with management. The assurance is applicable to the policies and processes examined. The evidence was gathered in accordance with Treasury Board policy, directives, and standards on internal audit for the Government of Canada. The evidence has been gathered to be sufficient to provide senior management with the proof of the conclusions derived from the audit.

2.0 Introduction

Background

- 2.1 The 1997 independent report on Modern Comptrollership in the Government of Canada identified risk management as one of its four pillars. In 2000, the Treasury Board of Canada introduced its new management framework, *Results for Canadians*. Following these initiatives, the Treasury Board developed an Integrated Risk Management (IRM) Framework in 2001 as a means of strengthening risk management practices across the public service. The IRM Framework provided a comprehensive approach to integrate risk management into planning, reporting and everyday decision-making.
- 2.2 In 2003, the Treasury Board introduced its Management Accountability Framework (MAF) which annually assessed numerous areas of management, including Integrated Risk Management.
- 2.3 In response, WD hired a consultant in 2004 to assist in the development of a Corporate Risk Profile (CRP). The CRP was identified as the first of four elements of an IRM Framework. The CRP was intended to identify WD's key organizational risks. This work did not result in an approved CRP.
- 2.4 In 2006, WD resumed work on developing an initial departmental CRP. Workshops were held with representatives from all branches of the department as a means of identifying key risks. Two committees were established corporately, an IRM Steering Committee made up of senior management and an IRM Implementation Committee which included representatives from all branches. This work resulted in an approved CRP in 2006.
- 2.5 In 2008, WD changed its executive risk management champion who in turn updated the 2006 CRP. WD adopted a new approach to developing its CRP and decided to disband the IRM Implementation Committee and transfer those responsibilities to the Planning and Reporting Committee, with the goal being to improve integration with the departmental planning function. The updated version of the CRP (in 2009) was aligned to the Program Activity Architecture of the department. WD undertook to review the CRP annually. WD is currently reviewing the 2009 CRP.
- 2.6 IRM was selected for audit at WD as part of the approved audit plan for 2009-11. The importance of adequate risk assessment and mitigating strategies was recognized in meeting WD's key objectives and strategic outcomes. Internal Audit has assessed program level risk management practices in previous audits, but has not yet assessed the overall entity-level process and the degree of integration of risk management into existing strategic planning and decision-making processes.
- 2.7 While the concepts of risk management and its integration into business planning and reporting are not new to managers at WD or in the public service, the formality and documentation requirements have definitely evolved since 2001.

Audit Objective

- 2.8 The objective of the audit was to provide assurance on the adequacy and effectiveness of the integrated risk management framework at WD.

Key Risks

- 2.9 Management develops controls to mitigate risks. This audit focused on providing assurance that management has in place effective controls to **prevent** the following specific risks from occurring:
- Risk management is not linked to corporate objectives.
 - Management has not identified its key risk to achieving its objectives.
 - Management does not have a plan to mitigate those key risks to an acceptable level of risk tolerance.
 - Risk management is not communicated, understood or applied throughout organizational processes.
 - Risk management is not integrated into existing governance and decision making structures or performance reporting systems.

Scope and Methodology

- 2.10 The audit examined the process and effectiveness of risk identification, assessment, communication, and mitigating activities. The audit examined the extent that risk is integrated into existing governance, direction setting and decision-making structures. In addition to the Corporate Risk Profile and documents available on WD's Intranet, the auditors examined corporate and regional planning and reporting documents. The audit focused on the period of 2008 to 2010; however, pre-2008 work on the development of a WD Corporate Risk Profile was also reviewed as a means of providing historical context. The audit included interviews with regional and corporate planning team members and members of the Integrated Risk Management Committee.
- 2.11 The audit did not assess the risks identified in the Corporate Risk Profile, but instead examined the process, policies, planning and reporting associated with risk management at WD.
- 2.12 The audit criteria were chosen after giving consideration to the Office of the Comptroller General Core Management Controls and were appropriately reviewed and agreed to by management prior to the start of the audit field work.

Acknowledgements

- 2.13 The auditors would like to thank WD staff for the timely cooperation and assistance provided to the audit team throughout this engagement.

3.0 Findings and Recommendations

3.1 Identification of Risks

Criterion: WD Corporate Risk Profile is regularly reviewed as part of the strategic planning process.

3.1.1 The audit found that since 2009, the Corporate Risk Profile is reviewed annually. However, the document is updated and reviewed separately, and not as part of the strategic or business planning processes. WD needs to stay current in its identification and assessment of risks. The CRP needs to be a dynamic document and respond quickly to changes. For example, the recent economic crisis reinforced the need for WD to reassess its key risks. Canada's Economic Action Plan in January 2009 introduced a number of new initiatives and associated key risks in the design and delivery of these new initiatives. The audit found sufficient evidence of WD's detailed risk assessment around these new initiatives, and evidence of the reflection of these risks in strategic planning and reporting documents. However, WD did not update its CRP, to reflect the risks associated with the new programs as the two processes currently are not fully integrated.

Criterion: Adequate tools, training and support are provided for staff on corporate risks.

3.1.2 Elements of online tools and support were found on WD's intranet, but there is no comprehensive package of tools and policies to guide regions and branches in their risk management approach. In addition to a number of risk discussions at various meetings, a 2009-10 session on risk management was held at WD's Manager's Symposium and the CRP was reviewed by the Executive Committee and the Departmental Audit Committee. However, ongoing communication and training is needed to maintain an effective risk management structure throughout WD, to ensure that regions are supported and have the tools and training to sustain the initiative, and to ensure any work is integrated into current planning and reporting activities both corporately and regionally.

3.1.3 WD's intranet is an ideal tool for the dissemination of such tools. The audit found a draft Risk Management Framework on the departmental intranet. The Framework needs to be finalized and co-located with the current Corporate Risk Profile on the intranet, and supported by appropriate tools to assist managers and staff.

3.1.4 The intranet site should be a resource center providing information on the Corporate Risk Policy, risk management principles, procedures and practices, while linking risks to departmental priorities and to its existing planning and reporting processes.

Recommendation #1: The department should develop appropriate tools to support staff in understanding and implementing integrated risk management at both the corporate and activity level.

Criterion: There is evidence of risk considerations in strategic planning. Risk information is embedded in the organization's key planning and performance reports.

- 3.1.5 The audit found an increased consideration of risks in everyday activities at both the corporate and regional level. Although risk was always given informal consideration in the past, the awareness of the need to document discussions around risk is now gaining traction. The Executive Committee Terms of Reference indicate that all business decisions are to be made in the context of the Corporate Risk Profile. Risk consideration is now being incorporated into every issue sheet presented to the Executive Committee requiring a decision. Where the auditors examined minutes to meetings, there often was evidence that risk had been discussed.
- 3.1.6 The audit, however, found a disconnect with the corporate planning function. The corporate planning and reporting documents all had some discussions on risks and risk management. However, the corporate planning process operates separately and in parallel to that of the CRP development and update. The CRP outlines WD's key risks to achieving its objectives. The corporate business plan outlines WD's strategies to achieve those same objectives. Ideally, the two processes should be integrated.
- 3.1.7 The audit found that a shift is taking place at WD as it was noted the risk management framework developed for the Economic Action Plan did make the linkage between program risks and the Corporate Risk Profile. That framework noted that reporting on the mitigation of these risks would be done through the Report on Plans and Priorities and the Departmental Performance Report.
- 3.1.8 The Executive Committee regularly review performance progress reports that include commentary on risk management. However, these reports were not linked back to the CRP and what progress WD had made in mitigating its key risks identified in the CRP. WD needs to institute reporting that will identify, assess and provide information on the mitigation of key risks as part of its existing planning and reporting processes.

Recommendation #2: The department should modify its existing reporting processes to include an analysis on how all its existing activities are mitigating the key risks identified in the Corporate Risk Profile.

Criterion: Risk events are identified at the entity and activity levels.

3.1.9 WD now has an entity-wide CRP and a regular risk review process. WD has a well established and well documented risk assessment process at the activity level (e.g. project level). The key will be for WD to determine how all these activities fit within an entity-wide Risk Management Framework to help support the achievement of WD's business objectives and strategic outcomes. See recommendation #3.

3.2 Documented approach to risk management

Criterion: The organization's direction and approach to risk management are formally articulated, well communicated, and well understood. Formal processes and guidelines exist and are applied to facilitate the assessment of risks to which the organization is exposed.

3.2.1 WD's intranet site includes a section on risk management, which is available to all employees. The auditors found some outdated information on the site, and occasional broken links in accessing some areas of the site. In order to be a useful communications tool for staff, WD should keep this site and its contents current.

3.2.2 WD is currently developing a communication strategy to support the understanding of risk management. A consultant was hired to interview and survey stakeholders.

3.2.3 The audit found evidence of a number of individual elements of a Risk Management Framework in place at WD. However, there was no comprehensive implementation plan to guide the work conducted to date. Progress has been made, but not in a sufficiently planned or documented way. The process could have benefited from a structured, linked approach to an entity-wide Risk Management Framework. WD should finalize and approve its draft Risk Management Framework and any associated processes or guidelines, and ensure they are posted on the intranet site. Only then can management assess all of its individual activities around risk management to ensure that they are all complementary and not duplicative or redundant in any way.

Recommendation # 3: The department should finalize and approve its Risk Management Framework. The Framework should clearly link risk assessment and management processes with existing corporate planning and reporting processes.

3.3 Analysis of identified risks

Criterion: The risk assessment process considers the results of the control assessment and includes an analysis of the risks' residual impact and likelihood of occurrence.

- 3.3.1 The audit found that in the examination of risk events, management took into consideration the likelihood and impact of that event occurring. As part of the process of analyzing risks, management assessed the inherent and residual risks. WD used a likelihood/impact matrix to determine its risk rankings (low, medium, high).

Criterion: Appropriate levels of management are involved in analyzing the risks, and all appropriate functional areas are involved.

- 3.3.2 Robust risk management processes require visible support and commitment from senior management. It needs to be evident and communicated that senior management is involved, supportive and sees the value in addressing risk issues. Risk management requires a top down direction from senior management (as “owners” of the corporate risks) and a bottom up approach to risk assessment and the development of mitigation strategies. The audit found that responsibility for risk identification at WD takes place through the Planning Team. The audit found that an initial kick off presentation is made biennially to senior management; however significant senior management involvement for the most part is limited to the final approval process. If senior management is also more fully engaged at the start of the process, this will increase the likelihood that the right corporate risks are identified early on in the process and probably streamline the work currently undertaken by the Planning Team.

Recommendation #4: Senior management should take the lead in identifying corporate risks. The Executive Committee should identify the key corporate risks as part of its annual priority-setting and planning discussions.

3.4 Risk response

Criterion: A formal response to the risk is documented and communicated to the necessary parties. Action plans are put in place to manage or treat risks that are deemed unacceptable.

- 3.4.1 Although the Executive Committee approved the most recent CRP over a year ago, they have not seen an update of any action in response to those risks identified. The auditors could only find a draft version of an incomplete action plan. In discussions with management, there were no immediate plans to report back to the Executive Committee on progress to date.
- 3.4.2 Although some reporting to the Executive Committee does take place in the form of performance reports, the extent that risks are explicitly reported on in that report is brief. WD has taken the time to identify key risks that would prevent departmental objectives from being met, but has not formally assessed whether the risks have been sufficiently mitigated.

- 3.4.3 A well developed plan to address key risks would include what action will be taken, who will be responsible for that action, what the time frame for implementation will be, and what will indicate success of that plan. Regular reporting on the progress of that plan to senior management is required to assure that key risks are not only identified, but managed effectively. Ideally, this should be fully integrated into the existing corporate planning and reporting processes to avoid the establishment of duplicate processes. See recommendation #2.

3.5 Oversight

Criterion: An oversight committee with formal responsibility for monitoring risk and risk management exists.

- 3.5.1 WD has established an integrated risk management committee and has identified a senior-level risk champion. The audit found that the committee met infrequently and minutes could not be obtained. If WD is able to fully integrate risk management into its existing corporate planning and reporting processes, management may wish to revisit the ongoing need for this committee.

3.6 Risk integration

Criterion: Risk information is incorporated into the strategic direction-setting of the Department. Management decisions at every level integrate risk management.

- 3.6.1 Risk management needs to be integrated into governance, planning, policy, decision-making, and reporting processes throughout the department. The audit found that a culture change had occurred at WD and that risk is being incorporated into regional and corporate planning. Although not fully integrated with corporate priority setting and resource allocation exercises, significant progress has been made in incorporating considerations of risk when setting priorities both at a regional and corporate level. The mapping of risks in the various business plans to those indicated in the Corporate Risk Profile is not yet been consistently done. Best efforts are being made in the absence of a coherent Risk Management Framework.
- 3.6.2 The audit found a need for greater coordination between the corporate planning processes and the risk management/assessment processes. Risk management references in the corporate business plan should align with the risks in the Corporate Risk Profile. See recommendations #2 and 3 which provide some suggestions to increase overall integration.

4.0 Conclusions

- 4.1 The audit found that WD is evolving in its maturity level with respect to risk management. What started out slowly has evolved to the point that risk is given consideration in many day to day activities. Documentation of risk considerations and mitigating measures is taking place not only corporately but also at the regional level.
- 4.2 WD has the opportunity to move to the next stage of development by providing tools and training to staff. In this way, risk management remains front and center and is given the prominence it deserves. WD also has the opportunity to further integrate its risk management processes with its existing corporate planning and reporting processes. The audit found that risk considerations have been integrated into decision-making processes at the Executive Committee.
- 4.3 Reporting on the success of mitigation measures can be enhanced as a means of demonstrating that actions taken have resulted in desired outcomes. Where outcomes desired have not been achieved, there is then the opportunity to reassess the status of the risk and further mitigating measures required.

Results Summary by Audit Criteria

Assessed Audit Criteria	Results
Identification of risks	Criteria mostly met
Documented approach to risk management	Criteria partially met
Analysis of identified risk	Criteria mostly met
Risk events are identified at the entity and activity levels.	Criteria mostly met
Risk response	Criteria partially met
Oversight	Criteria met
Risk integration	Criteria partially met

5.0 Audit Strategies and Approach

Planning

- 5.1 Audit planning started in October 2009 and fieldwork was completed in March 2010. Pre-engagement meetings and preliminary survey were completed to facilitate identification of key risks, audit criteria, control elements and audit strategies. WD program and finance staff was consulted throughout all steps in the audit process.

Standards and Methodology

- 5.2 The Government of Canada internal auditing standards were used throughout the planning, conducting and reporting phases of the audit. The audit was evidence-based in order to ensure the audit assurance is fully supported. All available evidence has been examined and analyzed against the audit criteria in order to recap the results. Sources of evidence included: interviews, review and analysis of policies, background literature and management practices at WD, review of previous audits or reviews by other assurance providers, and follow-up on previous internal audits.

Audit Team

WD internal audit staff conducted this audit.

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