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Auditor General of Canada
to the House of Commons

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Chapter 1
Integrated Risk Management

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The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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Chapter

1

Integrated Risk Management

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Integrated Risk Management

Main Points

1.1 In the six departments that we audited, senior executives have taken some of the early steps that demonstrate their commitment to integrated risk management. Their sustained and visible support over time will be needed to obtain the support of managers and staff that is crucial to the initiative's success.

1.2 Any initiative such as integrated risk management that calls for significant change requires a well-developed action plan to guide its progress. Despite their importance, action plans in all six of the departments we examined were missing important elements needed to implement integrated risk management department-wide. Where sound action plans are lacking, we are concerned that the integrated risk management initiative could drift—despite the high priority placed on implementing the Integrated Risk Management Framework as a key element of both modern comptrollership and improved reporting to Parliament.

1.3 Risk profiling, another essential element of integrated risk management, includes the critical step of defining an organization's tolerance for risk. No department that we audited had a fully developed profile clearly indicating the level of risk that senior management was prepared to tolerate throughout the department. The development of risk tolerances assists departments in integrating risk management into their operations. Without clearly established risk tolerances, some managers may choose to avoid risk entirely, preferring the status quo; others may take greater risks than senior management is willing to accept.

1.4 In two of the departments we audited, internal audit has been made responsible and accountable for implementing significant components of the integrated risk management initiative on behalf of senior management. In our view, the close involvement of internal audit in implementing the initiative may compromise its ability in the future to provide objective, independent advice and assurance on the effectiveness of integrated risk management in the department.

1.5 The Treasury Board Secretariat has produced initial material to help departments start implementing the initiative. However, departments will need more practical guidance on how to carry out specific key steps toward integrating risk management into their management culture.

Background and other observations

1.6 Integrated risk management means incorporating risk information into the strategic direction-setting of the organization and making decisions that consider the department's established risk tolerance limits. Stronger risk management practices across the federal government are essential to managing resources more effectively, making better decisions, and ultimately improving the effectiveness of the public service.

1.7 The Treasury Board Secretariat published the Integrated Risk Management Framework in April 2001 as part of modern comptrollership, an initiative designed to strengthen management capabilities in departments and agencies.

1.8 This Framework describes risk management as the practices and procedures that an organization uses to manage the risks it faces; risk is defined as the uncertainty that surrounds future events and outcomes. Risk is the expression of the likelihood and impact of a future event with the potential to influence the achievement of the organization's objectives.

1.9 Departments, like many organizations, are at the initial stages of developing their integrated risk management practices. While departments have taken some positive first steps toward integrated risk management, much remains to be done.

1.10 Integrated risk management has a role to play in making the public service more effective. It contributes to better program management and delivery and better value for money. In addition, it helps departments make more informed decisions in managing the environmental, strategic, operational, political and financial risks that are under their control, and it should position them better to respond to those risks that are beyond their control.

1.11 Generally, we noted a lack of concerted effort across departments to co-ordinate and communicate key information on the initiative. We also found little evidence that departments had made much progress in assessing their capacity for integrated risk management.

1.12 We noted that departments had done little or nothing to lay the foundation for monitoring and evaluating activities under the initiative.

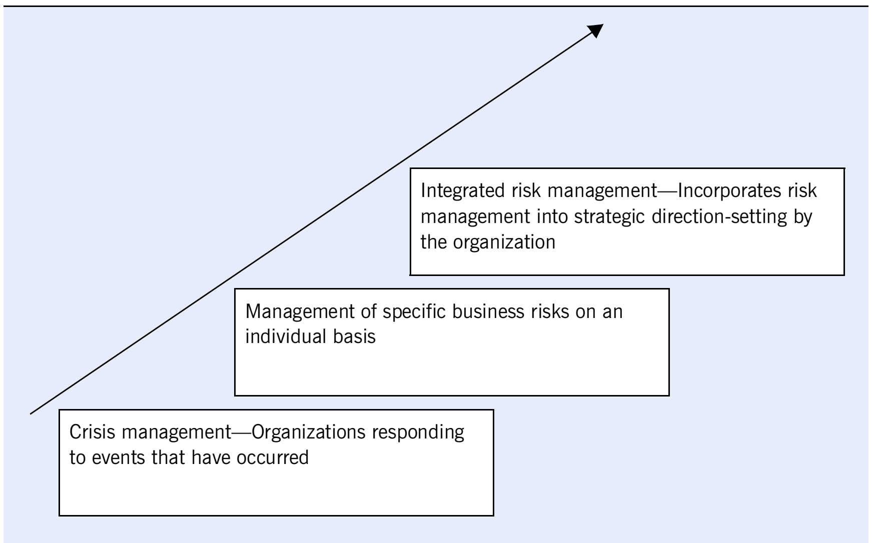
The Treasury Board Secretariat has responded. The Secretariat has indicated the actions it has planned or has under way to address the recommendations. Its detailed response follows each recommendation throughout the chapter.

Introduction

1.13 Risk management refers to the practices and procedures that an organization uses to manage the risks it faces. Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of a future event with the potential to influence the achievement of the organization's objectives.

1.14 Risk management capabilities vary greatly. At one end of the spectrum organizations rely on crisis management to address the risks that they face. They react to events after they have occurred. At the other end of the spectrum, organizations have strong management practices that allow them to incorporate integrated risk management in both their day-to-day management activities and their setting of strategic direction. This continuum of risk management is depicted in Exhibit 1.1.

Exhibit 1.1 Continuum of risk management



1.15 For example, how a department responded to the Year 2000 computer issue can illustrate the various risk management responses depicted in Exhibit 1.1. A department that had waited to see if a system would crash in the new millennium would have exhibited crisis management—by responding to an event after it occurred. A department managing specific business risks would have assessed each system and made the necessary changes. A department using integrated risk management would not only have made the changes necessary to respond to the Year 2000 issue but would also have taken the opportunity to re-engineer its business processes and strengthen the capacity of the department to meet its strategic objectives in the new millennium.

1.16 Integrated risk management extends risk management practices throughout the organization's structures, processes, and culture. It incorporates and aligns risk management with business planning, the setting of objectives, decision making, and other management activities of the organization. It considers environmental, strategic, operational, and financial risks across the organization and management's assessment of the effects of associated hazards and uncertainties on the objectives of key stakeholders.

1.17 In the Canadian system of government, ministers are responsible for what is done in and by their departments. Thus, decision-making in departments and the various agencies over which ministers have authority, on almost every matter of consequence, involves ministers directly or indirectly. This is the larger democratic context within which public service managers make decisions, manage programs, and identify and manage the risks that affect the achievement of the department's strategic objectives.

Risk management is a key component of modern comptrollership

1.18 The federal government's modern comptrollership initiative began in 1997 with the creation of an independent review panel to examine comptrollership in the central agencies of the government and in its operating departments.

1.19 In 1997, the panel issued its *Report on the Modernization of Comptrollership in the Government of Canada*. The report noted that modern comptrollership is a management reform focussed on the sound management of resources and effective decision making. Modern comptrollership requires managers and financial specialists to co-ordinate the work of prioritizing, planning, and meeting operational goals and achieving desired results. It brings information from many sources into a meaningful whole and communicates that information to those who need it. Modern comptrollership involves not only financial officers in departments but all managers, and it goes beyond financial accountability.

1.20 The Report set out four key elements of modern comptrollership:

- integrated performance information (financial and non-financial, historical, and prospective);
- a sound approach to risk management;
- appropriate control systems; and
- a shared set of ethical practices and organizational values, beyond legal compliance.

1.21 Exhibit 1.2 sets out some of the key events in the federal government's development and implementation of integrated risk management.

Integrated risk management is essential to an effective public service

1.22 The broad objective of modern comptrollership is to enable departments and agencies to manage more effectively, with risk management as one of four key elements. Integrated risk management represents an approach that contributes significantly to better management in the public service by dealing with risk systematically.

Exhibit 1.2 Key events toward integrated risk management

April 1994	Risk Management Policy revised
October 1997	*Report on the Modernization of Comptrollership* published
April 1999	Treasury Board Secretariat's *Best Practices in Risk Management: Private and Public Sectors*
March 2000	*Results for Canadians* report published
March 2000	Privy Council Office's *Risk Management for Canada and Canadians*—Report of the ADM Working Group on Risk Management
April 2001	Integrated Risk Management Framework published
April 2001	*A Foundation for Developing Risk Management Learning Strategies in the Public Service* published by the Canadian Centre for Management Development Round Table on Risk Management
September 2001	Implementation Council for the Integrated Risk Management Framework established
December 2001	Inventory of federal risk management tools and departmental training
July 2002	Treasury Board Secretariat's risk management Web site established
August 2002	Modern comptrollership, which includes risk management, identified as a corporate priority by the Clerk of the Privy Council

1.23 The ability to manage risk is one attribute of an effective public service. By managing risk, a department can increase the certainty that its programs and activities will meet their objectives. To the extent that integrated risk management contributes to better management and delivery of programs and better value for money, it clearly has a role in making the public service more effective.

1.24 Integrated or enterprise risk management will help departments make more informed decisions in managing the environmental, strategic, operational, political, and financial risks that are within their control and will position them to better respond to risks that are beyond their control. Integrated risk management will also give departments a framework within which they can set out in their reports on plans and priorities the key risks they face in delivering programs to Canadians; and in their departmental performance reports they can account for how they have managed those risks.

1.25 Integrated risk management entails managing risk and control activities across an organization; the two are inextricably linked. Control includes management actions to manage and/or mitigate risk to an acceptable level while supporting the organization's objectives.

The Integrated Risk Management Framework

1.26 The Integrated Risk Management Framework published by the Treasury Board Secretariat in April 2001 provides departments with guidance on implementing a department-wide, and ultimately government-wide, systematic approach to risk management. The Framework comprises four interrelated elements: developing a corporate risk profile; establishing an integrated risk management function; practising integrated risk management; and ensuring continuous risk management.

1.27 The implementation of the Framework's principles promotes the building of a "risk-smart" workforce and the creation of an environment that allows for innovation and responsible risk-taking. The same principles are designed to ensure that departments will take precautions to protect the public interest, maintain public trust, and exercise due diligence. The Framework proposes a set of risk management practices that departments can adopt or adapt to their specific circumstances and mandates.

1.28 Exhibit 1.3 summarizes the roles and responsibilities for integrated risk management under the Framework.

Focus of the audit

1.29 This audit continued our examination of the government's progress toward modern comptrollership. Our October 2000 Report, Chapter 13, assessed the financial management capabilities of five departments. Our April 2002 Report, Chapter 7, discussed the adequacy of the strategies and plans that seven departments had developed to achieve the objectives of the government's modern comptrollership initiative. In 1999 and 2001 we reported on the implementation of the government's financial information strategy.

1.30 Our objective in the current audit was to assess the adequacy of departmental efforts to implement the Integrated Risk Management Framework developed by the Treasury Board Secretariat. We also considered what improvements departments needed to make in their strategies to increase the likelihood of successfully initiating integrated risk management.

1.31 We considered the roles that internal audit and the Treasury Board Secretariat play in promoting sound practices of integrated risk management in departments.

1.32 We included six departments in the audit:

- Canadian Heritage
- Human Resources Development Canada
- Indian and Northern Affairs Canada
- Treasury Board Secretariat
- Transport Canada
- Veterans Affairs Canada

Exhibit 1.3 Responsibilities for integrated risk management

Treasury Board Secretariat

- Communicate and explain integrated risk management
- Provide guidance, training, and a centre of expertise to support integrated risk management and reporting on best practices
- Provide the Treasury Board, other central agencies, and Parliament with risk management information and advice appropriate to their responsibilities
- Examine and evaluate periodically the effectiveness of integrated risk management government-wide
- Monitor and report progress

Departments

- Implement integrated risk management

Deputy heads

- Set the tone from the top that systematic and integrated risk management is valuable for understanding uncertainty in decision-making and for demonstrating accountability to stakeholders
- Determine the best way to implement integrated risk management in their organizations
- Ensure from a corporate perspective that risks are prioritized and appropriate risk management strategies are in place to manage the identified risks
- Ensure that the capacity to report on the performance of the risk management function is developed and working effectively

Senior management

- Integrate risk management into overall departmental strategy and management frameworks
- Provide managers and employees with training and learning opportunities to build the required competencies
- Allocate resources for investment in more systematic risk management

Middle management and specialists

- Integrate risk management into their decision making
- Ensure ongoing operational and corporate action, planning, training, control, monitoring, and documentation of risk management
- Ensure that policy and related advice, guidance, and assistance are in line with central agency and departmental policies on risk management and with senior management's objectives
- Identify and assess risk and the effectiveness, efficiency, and economy of existing measures to manage risk
- Design and implement tools for more effective risk management

Internal audit

- Provide assurance to deputy heads on the adequacy of their departments' assessment and management of risks

Source: Treasury Board Secretariat's Integrated Risk Management Framework, April 2001

1.33 We assessed the Treasury Board Secretariat's role in providing overall strategic direction on implementing the Integrated Risk Management Framework, and we examined the nature and extent of guidance and advice it has provided to departments. Finally, we assessed how the Secretariat monitors departments' progress in adopting and adapting the Integrated Risk Management Framework. Further details are provided at the end of the chapter, in About the Audit.

1.34 Our work to support this chapter included identifying best practices in the federal government, in public sector organizations of other jurisdictions, and in private sector organizations. A synthesis of the best practices we noted is set out in exhibits throughout the chapter.

Observations and Recommendations

Common factors in successful integrated risk management

1.35 In our reviews of good practices and lessons learned by organizations outside the federal government, we identified a number of factors that contribute to the successful implementation of integrated risk management:

- **Senior management support**. Senior management must lend its full support to developing and implementing an integrated risk management framework. Senior managers need to agree on the risk management framework, the value of risk management, and their respective roles. They have to demonstrate their support by committing appropriate resources and sending appropriate messages throughout the organization.
- **A common strategy and framework.** Organizations must develop an integrated risk management strategy and framework across their business units and processes as a basis for developing a common language on risk and making consistent decisions in managing and taking risks. Organizations that do not spend enough effort on developing a framework are likely to end up with a fragmented approach to risk management: each business unit will likely develop its own approach to both implementing a risk management framework and responding to risks.
- **Clearly assigned responsibility for implementing integrated risk management.** Organizations that do not assign responsibility for integrated risk management clearly to individuals realize little benefit from this valuable tool and make little progress in implementing it. Though an organization can invest significant effort in developing an integrated risk management framework, if it does not assign responsibility clearly it will make neither the plans nor the changes needed to support the initiative. Management needs to identify a champion who is responsible for driving the changes needed to implement the framework. The champion needs the authority to make the changes and establish mechanisms (such as a steering committee and reporting processes) to implement integrated risk management across the organization.

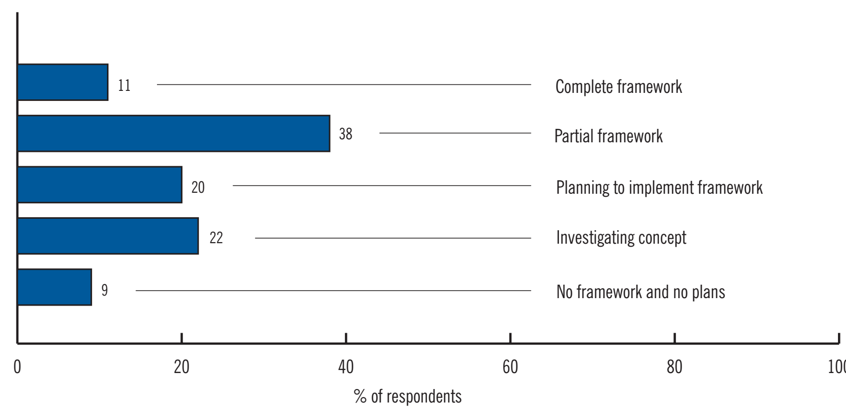
- **Taking a continuous approach.** Integrated risk management is not a one-time activity. It entails establishing a framework and a process to identify and manage risks on an ongoing basis. Accordingly, a process for regularly updating risk assessments and the strategies for mitigating risks is critical.

These factors were considered as we assessed departmental efforts to develop integrated risk management capabilities. We have incorporated more detailed examples of these better practices into exhibits included in this chapter.

Departmental efforts to develop capabilities

1.36 Departments, like many organizations, are at the initial stages of developing capabilities for integrated risk management. Exhibit 1.4 outlines how respondents in a recent survey by the Institute of Internal Auditors Research Foundation characterized the status of the enterprise risk management initiatives in their organizations. The survey indicated that only 11 percent of organizations reported having a full enterprise (or integrated) risk management system in place, while the majority of organizations are at different stages of implementing such a framework. Departmental progress in implementing integrated risk management that we noted in our audit is similar to results reported in this survey.

Exhibit 1.4 Survey by Institute of Internal Auditors Research Foundation: How respondents characterized the status of their organizations' frameworks for enterprise risk management



Source: *Enterprise Risk Management: Trends and Emerging Practices*, The Institute of Internal Auditors Research Foundation, 2001

1.37 We assessed the following dimensions of departmental efforts to implement the Treasury Board Secretariat's Integrated Risk Management Framework:

- the commitment and leadership of senior management;
- action plans for implementing integrated risk management;
- departmental risk profiling;
- efforts to build a capacity for integrated risk management; and
- monitoring and evaluation mechanisms.

More visible commitment and leadership needed from senior management

1.38 The clear, visible, and active commitment and leadership of senior management are critical to establishing integrated risk management throughout a department. As a prerequisite for success, senior management must take on the agenda for integrated risk management as its own and make it a strategic priority of the department. Because risk is usually not confined to one or a few departmental activities or programs, the strategic, department-wide perspective of senior management is indispensable. The departmental executive who "champions" integrated risk management needs to understand the department's culture and its strategic direction. Involvement of individual business units and processes across the department is also critical to developing a common language and an integrated approach to risk management.

1.39 Moreover, only a senior official has the authority to offer managers and employees incentives for accepting and applying the principles of integrated risk management day to day and developing a "risk-smart" philosophy.

1.40 We expected at this early stage of the initiative that senior management in departments would have begun to communicate the broad principles of integrated risk management to managers and employees and describe its potential for improving the management of the department.

1.41 Five of the six departments we audited have made an assistant deputy minister (ADM) responsible for overseeing the implementation of integrated risk management. In the sixth department, the associate deputy minister was made responsible for overseeing the initiative.

1.42 In one department, Human Resources Development Canada (HRDC), senior management has begun to raise employees' awareness of the initiative throughout the organization. As an early step, HRDC has asked all ADMs to identify and discuss the operational risks in their areas of responsibility. It has also given all ADMs the responsibility and authority to embed the integrated risk management initiative in their respective programs and activities.

1.43 Veterans Affairs Canada has also made good initial progress. For example, it has an approved Integrated Management of Risk Framework and has taken a number of steps to move integrated risk management to the operational level.

1.44 We also found that ADMs in three departments have not demonstrated a strong, overt position as the champions of integrated risk management; they have played only a limited role in furthering the initiative. For example, in Transport Canada, there has been little follow-up work on integrated risk management, in part because of competing priorities in the Department.

1.45 Widespread support and acceptance are critical to successfully introducing initiatives such as integrated risk management that call for change. Best practices and experience with integrated risk management in both the public and the private sectors show that unless senior management cultivates that support and acceptance throughout the organization, there is a risk that it will not take root but instead remain largely a paper exercise.

1.46 Exhibit 1.5 lists some of the best practices in integrated risk management that show commitment and leadership from senior management.

Exhibit 1.5 Tone from the top

Best practices we identified include the following:

- A clear commitment to the development and use of integrated risk management at the departmental level
- Appointment of an integrated risk management champion from the executive levels of management who has responsibility for establishing integrated risk management throughout the department
- Assignment of the necessary resources
- Monitoring progress in implementing the integrated risk management initiative
- Senior management membership on the department's risk management committee
- Senior management's visible and direct involvement in and commitment to the development and maintenance of a departmental risk profile
- A clear message from senior management about the importance of identifying and managing those risks that impact on the achievement of the department's strategic objectives

1.47 If senior management fails to foster the development of integrated risk management, it will sacrifice the initiative's potential to contribute to more effective management practices.

1.48 **Recommendation.** Senior management in each department and agency of the government should visibly and actively demonstrate clear, sustained commitment and leadership to ensure the successful implementation of integrated risk management. This should include such things as assigning adequate resources, monitoring the progress of implementation against an approved plan, and demanding risk-based information to support strategic decision making.

Treasury Board Secretariat's response. The government's Integrated Risk Management Framework recognizes that clear and visible senior management commitment and leadership are essential in building a foundation for successful implementation of integrated risk management. The Secretariat will continue to encourage departments and agencies to identify a risk champion at the senior management level who is strategically placed to lead implementation of an integrated approach to risk management in the organization.

Departments need well-developed action plans for integrating risk management into their operations

1.49 Risk management has been identified as a fundamental element of modern comptrollership. An important step to achieving modern comptrollership includes converting the requirements of the Integrated Risk Management Framework into an action plan that articulates the end goals and the measures that will be used to demonstrate their achievement.

1.50 A department needs to have an action plan for implementing integrated risk management that indicates to senior management how the department will proceed—who is responsible for doing what, the sequence and timing of key activities, the nature and extent of the resources required, and how these activities relate to management's other initiatives and priorities. The action plan should also describe the intended results and outcomes of the integrated risk management initiative, the type of people needed to achieve them, and the costs. Such a plan would provide a basis for monitoring progress and making any changes needed to mitigate problems or risks as they emerge.

1.51 A sound, carefully prepared action plan is a prerequisite to managing any significant initiative and reducing the associated risk. An action plan increases the likelihood that the initiative will succeed and at a reasonable cost. An action plan establishes clear responsibility for the initiative, provides a basis for assessing whether adequate resources have been assigned to the task, and establishes a basis against which departments can monitor and report on progress.

1.52 To complement their work on modern comptrollership, the Treasury Board Secretariat has provided departments with draft guidance on developing their action plans for integrated risk management. This guidance requires departments to include in their action plans such things as desired outcomes, concrete activities for delivering the desired outcomes, distinct responsibilities, clear timelines, and reporting on the progress to date of actions realized against desired outcomes.

1.53 None of the six departments we audited had an action plan that met all the criteria set out in the Secretariat's guidelines. Only two of the six (Treasury Board Secretariat and Veterans Affairs Canada) had any action plan, but those lacked key information such as who was responsible for carrying out specific tasks and what the schedule was for completing them. Of note is that these two plans did not specify in any detail the resources (people and money) that would be needed to implement integrated risk management. Of the six departments we audited, Veterans Affairs Canada had the most complete action plan: one that contained some 30 projects with specified delivery dates. The plan also included planned outcomes and performance indicators for the initiative.

1.54 Exhibit 1.6 illustrates some of the best practices we noted in the development of action plans for integrated risk management.

Exhibit 1.6 Action plans—Best practices

Establish a strategic integrated risk management process that integrates the department's mission, strategic objectives, operating unit plans, and day-to-day activities.

Identify and assess risks associated with the department's activities.

- Do an environmental scan to identify key internal and external risks associated with the department's activities.
- Use workshops with senior management to identify corporate risks.

Select integrated risk management strategies.

- Align the initiative with other management initiatives and priorities.
- Establish intended results and outcomes of the initiative.
- Develop a database that includes identified risks, risk mitigation plans, and departmental risk profiles.

Implement an integrated risk management action plan.

- Appoint and train co-ordinators to oversee implementation.
- Identify individuals who are responsible for elements of the work plan.
- Determine the nature and extent of resources required.

Report on integated risk management and controls.

- Report progress on implementing the initiative and explain any variances.

Monitor integrated risk management performance.

- Monitor progress and make any changes needed to mitigate problems or risks as they emerge.
- Revise and update strategy as needed.

1.55 Because an action plan is a critical early step in making integrated risk management a reality, we are concerned that the departments in our audit had no such plans or had incomplete plans, restricted to particular departmental activities.

1.56 **Recommendation.** The associate or assistant deputy minister responsible for implementing integrated risk management in each department should ensure that an action plan is developed that sets out for senior management how the department plans to implement the initiative. The plan should, as stipulated in the Treasury Board Secretariat's guidance, prioritize activities, assign responsibility and authority, identify levels and kinds of resources needed, set out timelines to implement integrated risk management department-wide, and identify how it integrates with other departmental improvement initiatives.

Treasury Board Secretariat's response. The Secretariat agrees that the development of action plans, which elaborate the department's strategy and work plans, is an important step in successfully implementing integrated risk management. The Secretariat has released guidance for elaborating the integrated risk management component of modern comptrollership action plans; this guidance complements existing direction to departments in developing modern comptrollership action plans. The Secretariat is encouraging departments and agencies to make their modern comptrollership action plan an integral part of their management improvement agenda.

Departments have made progress in developing departmental risk profiles

1.57 Departmental risk profiling, a critical ongoing part of managing risk in any department, involves

- formally and explicitly identifying the risks associated with achieving objectives at all levels and in all operations of a department;
- assessing the potential outcomes for the department should a particular event or situation not occur as planned;
- determining how the department will respond to identified risks—accept, manage, or ignore the risk;
- defining how much risk the department will accept—risk tolerance—given what it is trying to achieve; and
- ensuring that all managers and staff in the department understand the department's risk tolerance so they can act accordingly.

1.58 Taken together, these elements of departmental risk profiling are the core and foundation of integrated risk management. They represent the systematic steps toward risk-smart managing.

1.59 The benefits of establishing risk tolerances include the following:

- **Consistency throughout the department.** If a department does not formally establish limits for risk tolerance, people will develop them informally and they will seldom be consistent. Informal development of risk tolerance can encourage people to set or define their own acceptable limits, and resources will be allocated differently by each person.
- **Consistent management response.** Establishing a common understanding of risk tolerance provides a stronger basis for departmental managers to choose an appropriate response to risk. They can select responses that achieve the desired results using the least resources.
- **Resource allocation guided by risk tolerance.** In responding to areas where the potential consequences of risks exceed the department's limits of risk tolerance, resources may be reallocated to areas where further management action is needed to reduce potential consequences to within the department's established tolerance limits.

1.60 The six departments in our audit differed in their approaches to departmental risk profiling. All six told us they had been taking account of risk informally, case by case, long before the Secretariat published its Integrated Risk Management Framework. We noted at the time of our audit that none had a fully developed departmental risk profile.

1.61 Nevertheless, some departments have made a start at risk profiling. Except for not explicitly stating its risk tolerance levels, HRDC has dealt with most of the elements of risk profiling. Veterans Affairs Canada has included risk profiling in its management-of-risk framework and has a draft document covering risk tolerance. Three other departments are either developing or drafting risk profile documents. One department, Transport Canada, has no formal risk profile. However, it does manage risk in various operational areas, and profiling is implicit in that activity.

1.62 Exhibit 1.7 describes some of the best practices we noted in risk profiling.

Exhibit 1.7 Risk profiling

Best practices we identified include the development and maintenance, with direct senior management involvement, of the departmental risk profile as one of the key strategic risk documents.

The departmental risk profile

- identifies the risks most likely to affect the department's achievement of objectives,
- prioritizes risks so management's attention focusses on the most significant areas, and
- considers the adequacy of management controls surrounding the identified risks.

1.63 Program managers who lack a clear understanding of the acceptable boundaries of risk in their department may avoid taking any risks at all. A preference for avoiding risk can stifle innovation and creativity; the status quo will continue. Other managers in the same department may have a larger appetite for risk and could engage in various risky behaviours. Taking too many risks can lead to public embarrassment, financial loss, or exposure to liability.

1.64 Good integrated risk management means making decisions on risk that fall within the department's prescribed "risk appetite" or risk tolerance limits. In our view, completing their departmental risk profiles and identifying acceptable levels of risk must be a priority for departments. Completing departmental risk profiles without delay and continually reviewing them to ensure that they remain relevant to the department's objectives will help departments make better progress toward integrated risk management.

1.65 **Recommendation.** Senior management in departments and agencies should ensure that a departmental risk profile is developed that identifies and assesses the key risks and challenges of the department and the level of risk it is willing to accept. The departmental risk profile should communicate the risks and the tolerance levels to managers and staff so they understand the boundaries or limits within which they are expected to manage risk.

Treasury Board Secretariat's response. A corporate risk profile is one of the four related elements of the government's Integrated Risk Management Framework and is fundamental to establishing an organization-wide approach to managing risk. The corporate risk profile is expected to provide departments and agencies with a clear understanding of their operating environment, including the communication of key risks facing the organization and an appreciation of the risk tolerances of key stakeholders. The Secretariat encourages departments and agencies to focus on the development of a corporate risk profile as one of the initial steps in implementing integrated risk management.

Building capacity in departments

1.66 Capacity building refers to developing the people, skills, tools, and processes needed to help departments continually improve the way they operate. In any department, the foundation for building the capacity to improve and innovate includes three key steps:

- developing a communications strategy to ensure that people are aware of a change and know why management is introducing it;
- taking stock of the current capacity—people, skills, and knowledge—to manage the change; and
- building or acquiring the competencies, systems, and processes that the department will need to make the change work.

1.67 **Communications strategy.** To succeed with any initiative such as integrated risk management that calls for change, senior management must develop an appropriate, properly targeted communications strategy. Well-designed communications will be key to generating awareness, understanding, and acceptance of the integrated risk management initiative across the department. The communications strategy must demonstrate to managers and staff how integrated risk management can benefit them in their day-to-day work. The right strategy can also explain their role in implementing integrated risk management and the linkage of integrated risk management to other initiatives such as modern comptrollership. The communication strategy has to signal management's resolve and commitment to see this initiative succeed.

1.68 Four of the six departments in our audit have developed awareness sessions primarily for all managers. Another provided an awareness program for senior management. The sixth department has no program at all for explaining integrated risk management to staff and encouraging them to accept it as a positive initiative.

1.69 Generally, we noted a lack of concerted effort to co-ordinate and communicate key information across departments on integrated risk management. Indian and Northern Affairs Canada has a draft communications plan for the initiative but has not yet budgeted for implementing the plan.

1.70 We noted that the Treasury Board Secretariat has provided training and awareness sessions to staff. It has developed other communication training tools such as a draft managers' handbook and a toolkit to complement the Integrated Risk Management Framework. Veterans Affairs Canada has held sessions for most managers on integrated risk management. That department has made integrated risk management a priority since undergoing the Modern Comptrollership Capacity Check in September 2000. Indian and Northern Affairs Canada developed a risk management workshop in spring 2002 for trainers who would provide training in risk management throughout the Department.

1.71 **Taking stock of current capacity.** The second step in building capacity is a self-assessment exercise. The self-assessment enables senior management to identify gaps in skills and knowledge that the department will have to fill in order to implement integrated risk management. It entails examining the department's systems and practices critically to determine where changes will have to be made.

1.72 Once the department understands the gap it must fill to achieve the appropriate capability, it can turn to the third step—building or acquiring the skills and knowledge it lacks so it can make the necessary changes in its systems and processes. This may include providing formal or on-the-job training, recruiting new people, creating opportunities to learn about and share best practices, and developing centres of expertise.

1.73 In five of the six departments we looked at, we found little or no evidence of progress in assessing their capacity to implement integrated risk management. We acknowledge that it may be too early for some departments to have made that assessment. However, HRDC was developing a self-diagnostic tool to help managers assess their current capacity for risk management. This tool represents a useful beginning.

1.74 **Building or acquiring the needed competencies.** At this stage of the initiative most departments have not yet worked through the earlier step of assessing the people, training, systems, and processes they will need.

1.75 Exhibit 1.8 describes some of the best practices we noted in capacity building.

1.76 **Recommendation.** Senior management in departments and agencies should ensure that they assess their current capacity to implement and maintain integrated risk management practices and should develop the learning plans and strategies needed to improve and maintain the necessary competencies.

Treasury Board Secretariat's response. The government's Integrated Risk Management Framework highlights the building and sustaining of organizational capacity as a factor in successful implementation. The Secretariat identifies capacity building as an initial area of focus for departments and agencies that are beginning the implementation of an integrated approach to managing risk. While integrated risk management is a new approach to managing corporate risks in the federal public service, existing departmental risk management practices can be used as a starting point to build integrated risk management capacity. At the time of this audit, more than 50 departments and agencies have already used the modern comptrollership capacity assessment tool to provide a high-level assessment of existing capacity for implementing integrated risk management. The cumulative results of these capacity assessments also provide the Secretariat with valuable information to develop tools and guidance to address the gaps in the system and build and improve the necessary competencies.

Exhibit 1.8 Capacity building

Best practices include the following:

Training and development programs as an integral part of developing a “risk-smart” culture. Training and development programs in integrated risk management should

- be an ongoing part of the corporate training program,
- include the identification and development of the competencies that are expected of employees and that will be needed to adequately identify and manage risks, and
- include such topics as the department’s culture, risk assessment framework and processes, legislative requirements, departmental strategic objectives, lessons learned, and the department’s practices for managing risk.

Formal processes for sharing lessons learned within the department as a mechanism for integrating a common language around issues of integrated risk management and consistent approaches to identifying and measuring the likely impact of risks.

The use of the Intranet to communicate key integrated risk management information such as the integrated risk management policy and framework and the corporate risk profile.

Risk management incorporated into departmental planning and reporting practices. This not only improves departmental planning but also conveys the ongoing importance of integrated risk management information to senior management.

Monitoring and evaluation

1.77 Though departments are in the early stages of the integrated risk management initiative, we expected that they would be providing senior management and the Treasury Board Secretariat with up-to-date information on their progress. Such information would alert senior management to emerging problems and enable it to make timely corrections.

1.78 In the absence of action plans that would provide a basis for reporting on progress, reporting is largely informal. At the time of our audit, it consisted mainly of discussions, meetings, and presentations that focussed on particular activities related to integrated risk management. Departments were unable to show their progress in integrating and embedding risk management into their strategic and day-to-day activities. Neither the Treasury Board Secretariat nor departmental senior management were receiving the information needed to gauge the progress of integrated risk management or to manage any emerging risks associated with this initiative, despite the priority that the Treasury Board and the Clerk of the Privy Council have given the initiative. We noted that departmental performance reports did not include, as part of reporting on the modern comptrollership initiative, significant information on the department’s progress in implementing integrated risk management.

1.79 Only two departments in our audit—HRDC and Veterans Affairs Canada—have clearly identifiable monitoring and evaluation activities. HRDC’s are largely informal, such as debriefings at committee meetings.

Veterans Affairs has embedded monitoring and evaluation in its plan for implementing integrated risk management. We found that the Department has done some useful preliminary work, such as specifying outcomes and performance indicators that could be used in future audits and evaluations. The remaining four departments have not taken the necessary steps to lay the foundation for monitoring and evaluating integrated risk management activities.

1.80 Exhibit 1.9 describes some of the best practices we noted for monitoring and evaluating the integrated risk management system.

Exhibit 1.9 Monitoring and evaluation

Examples of best practices:

- Internal audits include assessments of the adequacy of monitoring and reporting on the use of integrated risk management.
- All levels of management monitor continuously, through both formal and informal mechanisms, the effectiveness of the integrated risk management initiative and the use of risk information.
- The department monitors progress in implementing the integrated risk management initiative against an established work plan and obtains explanations for any departures from agreed-upon timelines and resource requirements.

1.81 **Recommendation.** Once action plans are developed, senior management in departments and agencies should ensure that they monitor progress against them and take corrective action as needed. Departments should report their progress in their departmental performance reports.

Treasury Board Secretariat's response. The Secretariat agrees with the importance of monitoring against action plans and reporting on progress. The principal instrument for reporting to Parliament is the departmental performance report; current guidelines ask departments to report on modern comptrollership in departmental performance reports.

The role of internal audit

Internal audit must safeguard its independence and objectivity

1.82 The primary role of internal audit is to examine an organization's systems and processes and provide senior management with objective, independent assurance on how well they are working. In risk management, the primary role of a department's internal audit function is to provide senior management with assurance that the department has identified its key risks. Internal audit also provides an opinion on whether the department has appropriate controls, practices, and procedures both to minimize the risk that an adverse event will occur and to reduce the potential consequences if it does.

1.83 Internal audit may also play a consultative role—for example, advising on the design of a department's control framework or the completeness and adequacy of risk assessments by management. In doing so, however, internal auditors must exercise considerable care to ensure that they do not compromise their independence and objectivity.

1.84 We recognize that internal audit, through its consulting services, can make an important contribution to achieving a department's risk management objectives. However, where internal audit is taking a lead role in implementing integrated risk management, we would expect to see a clear strategy showing how and when the department intends to shift responsibility for the integrated risk management initiative from internal audit to departmental management. Ultimately, it is management's responsibility to ensure that risks are identified and managed within the risk tolerance limits established by the department.

The internal audit role varied considerably in the departments we audited

1.85 In three of the six departments we audited (Human Resources Development Canada, Indian and Northern Affairs Canada, and Canadian Heritage), internal audit was leading or sharing the lead responsibility for the implementation of integrated risk management. In our view, such a role for internal audit in the implementation process may compromise its future ability to provide objective, independent advice and assurance on the effectiveness of the department's risk management practices.

1.86 In departments where internal audit has taken a lead role in the integrated risk management initiative, we did not find that departmental plans established a clear strategy or time frame for shifting the lead for this activity from internal audit to management.

1.87 **Recommendation.** In providing consultative services, internal auditors in departments should ensure that they do not compromise their future independence and objectivity, which are critical to providing assurance to senior management. In the departments where internal audit is leading the integrated risk management initiative, departmental plans should contain a clear strategy with specific time frames for shifting the lead role for integrated risk management to departmental management.

Treasury Board Secretariat's response. The Secretariat recognizes the need for departmental internal auditors to maintain objectivity and provide independent advice and assurance on the effectiveness of integrated risk management within their organization. While a number of departments are being supported by their internal audit unit in the implementation of integrated risk management, the Secretariat believes that the responsibility and accountability for implementation nonetheless remains with management.

The Treasury Board Secretariat's role

1.88 The Treasury Board Secretariat has begun an organized effort to add integrated risk management to the tools for managing more effectively across government. It is clearly responsible for helping departments incorporate integrated risk management into their day-to-day management practices by

- supporting efforts to implement integrated risk management in departments,

- providing departments with a centre of expertise (the Risk Management Directorate) as a resource for integrated risk management, and
- monitoring and reporting on the progress and results of efforts to implement its Integrated Risk Management Framework.

1.89 The Secretariat also has a responsibility to ensure that risks have been considered and prioritized from a government-wide perspective in order to provide Treasury Board ministers, other central agencies, and Parliament with information and advice on risk management.

Supporting departmental efforts

1.90 The Secretariat has produced useful initial material to guide departments in introducing integrated risk management. However, they will need more guidance to embed the concept into their management practices.

1.91 In 2001 the Secretariat published a framework as a blueprint for implementing integrated risk management throughout the government. This framework provided a foundation for advancing risk management from an intuitive approach to a more rigorous exercise that adopts a departmental perspective about the risks associated with managing programs and activities in departments.

1.92 The Integrated Risk Management Framework explains what integrated risk management is. It provides an impetus for more work by departments. However, departments generally need more guidance on how to carry out specific steps that are central to integrated risk management—for example, two departments in our sample mentioned the need for practical guidance and support.

1.93 **Recommendation.** The Treasury Board Secretariat should provide departments and agencies with comprehensive guidance and specific tools to assist them in developing the key capabilities needed to integrate risk management successfully.

Treasury Board Secretariat's response. Recognizing that integrated risk management is a new approach to managing corporate risks, the Secretariat has and will continue to provide departments and agencies with ongoing support, guidance, and tools to raise awareness, build understanding, and support implementation of integrated risk management. The Secretariat is currently developing practical guidance to departments in implementing the concepts outlined in the Integrated Risk Management Framework. In addition, mechanisms are already in place, such as a risk management Web site and an Implementation Council, to promote sharing of experience and lessons learned. As departments have a vital role to play in taking ownership and responsibility for integrated risk management, the Secretariat acknowledges the leadership demonstrated by a number of departments and agencies in developing and sharing tools and guidance to build an integrated approach to risk management.

Providing a centre of expertise and monitoring progress

1.94 The Secretariat has established the Risk Management Directorate as a focal point for sharing information and best practices. The Directorate has participated in the development of introductory courses on the basic concepts of integrated risk management, offered by the Canadian Centre for Management Development and by Training and Development Canada.

1.95 As noted, another of the Directorate's responsibilities is to monitor and report to Treasury Board ministers on departments' progress in implementing integrated risk management. At the time of our audit, the Directorate was preparing its first progress report; annual progress reports are planned as part of the government's work on the modernization of comptrollership. In our April 2002 Report, Chapter 7, Strategies to Implement Modern Comptrollership, we recommended that the Treasury Board Secretariat provide Parliament with government-wide information on progress toward achieving modern comptrollership. We expect that this would include information on the implementation of the integrated risk management initiative.

1.96 As departments advance the integrated risk management initiative, the Directorate will need to broaden the scope of its monitoring to ensure that efforts remain on track and to obtain adequate information to support reporting to Parliament on government-wide progress. Integrated risk management is a necessary part of modern comptrollership and needs to advance along the same schedule.

1.97 Central agencies and Parliament need a broad perspective on the risks that affect government. Such information is necessary for making informed decisions, allocating resources among competing objectives of government, and managing risks from the perspective of the government as a whole. As set out in the Integrated Risk Management Framework, the Treasury Board Secretariat has a responsibility to provide central agencies with information about risk that meets their needs. At the time of our audit, the Secretariat had no plans to conduct a risk assessment and develop a corporate risk profile government-wide, nor had it identified key stakeholders across the government.

1.98 **Recommendation.** The Treasury Board Secretariat should ensure that information on key government-wide risks is provided to Treasury Board ministers, other central agencies, departments, and Parliament.

Treasury Board Secretariat's response. The Secretariat agrees with the importance of keeping Treasury Board ministers, central agencies, departments, and Parliament informed of key risks. Mechanisms exist to keep these parties, as well as the public, apprised of key risks and the Secretariat will continue to seek opportunities to further enhance the use of these mechanisms.

Conclusion

1.99 The integrated risk management initiative was begun to promote a risk-smart workforce—to create an environment that allows for innovation and responsible risk-taking while ensuring that departments take precautions to protect the public interest, maintain public trust, and ensure due diligence.

1.100 Federal government departments, like many organizations, are in the early stages of implementing integrated risk management. We found that while departments and the Treasury Board Secretariat have taken some good initial steps, they still have much to do. Strong leadership and sustained commitment from senior executives will be essential. Each department will need a well-developed action plan to guide its implementation of integrated risk management and provide a basis for measuring and reporting progress and holding people accountable for implementing integrated risk management. Action plans need to include departmental strategies for developing the necessary competencies in integrated risk management.

1.101 While departments have taken a number of steps to develop their departmental risk profiles, they need to define their levels of risk tolerance as part of this process. In the absence of clearly understood risk tolerance levels or boundaries of acceptable risk, it will be difficult to truly integrate risk management into daily operations. Some managers may choose to avoid risk entirely, preferring the status quo; others may take greater risks than senior management is willing to accept.

1.102 In supporting departmental efforts to implement integrated risk management, internal audit groups need to carefully balance their provision of consulting advice with the requirement to maintain their independence and objectivity. Independence and objectivity are essential to being able to provide senior management with the assurance that their departments' integrated risk management initiatives are adequate and complete. Where internal audit has taken a lead role in getting the integrated risk management initiative started, departmental strategies need to include a clear strategy for shifting responsibility to departmental management.

1.103 The Treasury Board Secretariat has produced initial material to help departments start implementing the initiative. However, departments require more practical guidance on how to carry out specific key steps toward integrating risk management into their management culture. The Treasury Board Secretariat also needs to ensure that risk information is consolidated government-wide and is available to Treasury Board ministers, other central agencies, departments, and Parliament.

About the Audit

Objectives

One objective of the audit was to assess the adequacy of steps that departments are taking to implement the Treasury Board Secretariat's Integrated Risk Management Framework. We also wanted to identify any need for improvement in departmental strategies to increase the likelihood that integrated risk management would be implemented successfully.

Our audit considered the role of internal audit in helping departments to implement integrated risk management.

The audit also assessed the Treasury Board Secretariat's role of providing overall strategic direction for implementing the Integrated Risk Management Framework. We assessed the nature and extent of the guidance and advice the Secretariat provides to departments and how it monitors their progress in adopting and adapting the Framework to meet their particular needs.

The departments included in the audit were

- Canadian Heritage
- Human Resources Development Canada
- Indian and Northern Affairs Canada
- Transport Canada
- Treasury Board Secretariat
- Veterans Affairs Canada

An important part of the work to support this chapter was identifying the better practices used in the federal government, public sector organizations in other jurisdictions, and private sector organizations.

Scope and approach

The summary-level criteria developed for the audit were the following:

Treasury Board Secretariat

- Progress in departments and agencies should be monitored on a government-wide basis. Strategic intervention should be exercised as appropriate to support the implementation of integrated risk management by departments.
- To maximize cost effectiveness and expedite progress, the Treasury Board Secretariat should co-ordinate and facilitate departmental efforts on common issues (for example, governance issues, communications strategies, human resources matters such as training). Guidance should be provided to departments and agencies to assist them in establishing integrated risk management.
- The Treasury Board Secretariat should keep Parliament informed about matters of significance and the progress made in building a risk-smart workforce and environment in the public service.

Departments

- Departments should have a commitment and culture or climate in place that supports the achievement of the departments' goals and objectives for integrated risk management and fosters the integration of risk management into the departments' governance structure. Senior management should monitor progress on an ongoing basis to support corrective action that departmental strategies may need.
- Each department should have a clear vision and objectives and an organized plan to identify, assess, and manage risks across the department that is consistent with its business objectives. The plan should be communicated to all levels in the department to facilitate the effective management of risks department-wide.

- Risks that may prevent the successful implementation of integrated risk management should be identified, assessed, and managed. Good practices and lessons learned should be shared within the organization to provide the necessary learning and training opportunities for building and strengthening risk management capabilities.
- Plans for integrating risk management across the department should demonstrate due regard to economy and efficiency.
- Clear, accurate, comprehensive, and timely progress information should be provided to senior management and the Treasury Board Secretariat so they can use it in decision making, initiate corrective action where warranted, and report on progress achieved.

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