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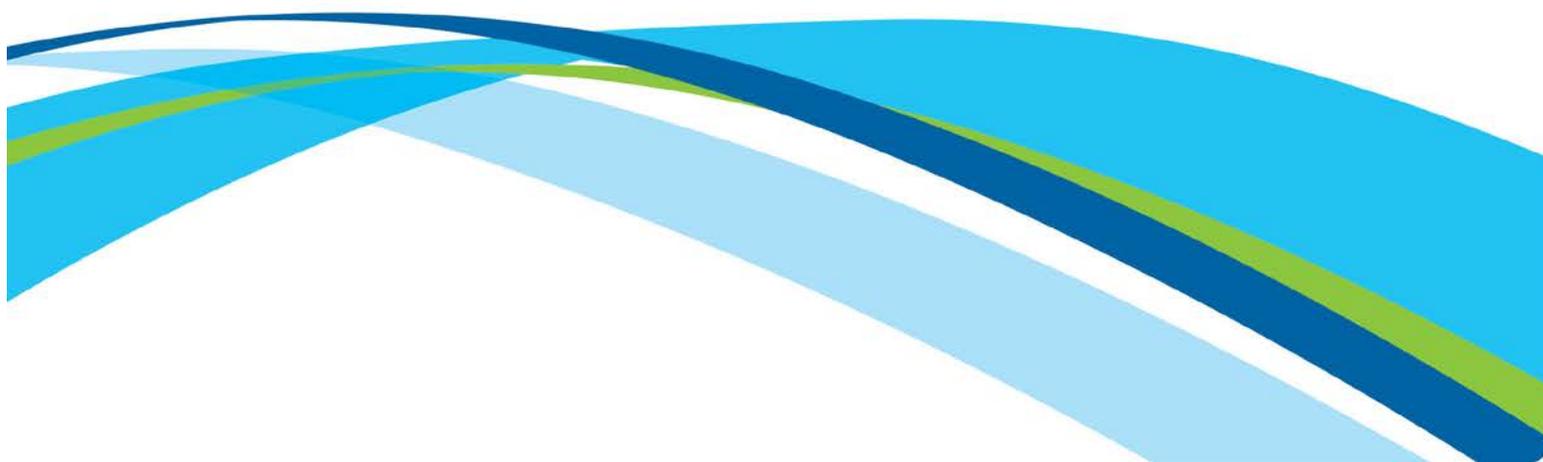
Canada



## Corporate Risk Management Audit

Office of the Chief Audit Executive  
Audit and Assurance Services Directorate

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## List of Acronyms

ADM	Assistant Deputy Minister
CAE	Chief Audit and Evaluation Executive
CRP	Corporate Risk Profile
DAC	Departmental Audit Committee
DG	Director General
DPRs	Departmental Performance Reports
DM	Deputy Minister
EXCOM	Executive Committee
FIN	Finance Committee
GCMi	Grants and Contributions Modernization Initiative
HRWMB	Human Resources and Workplace Management Branch
IBP	Integrated Business Plan
IRMF	Integrated Risk Management Framework
MAF	Management Accountability Framework
PCH	Department of Canadian Heritage
PCH EX	PCH Executive community
PPC	Program and Policy Committee
RBAP	Risk-Based Audit Plan
RM	Risk Management
RPP	Report on Plans and Priorities
SPPCA	Strategic policy, Planning and Corporate Affairs
SPPRB	Strategic policy, Planning and Research Branch
SWOT	Strengths & Weaknesses, Opportunities and Threats
TBS	Treasury Board Secretariat

# Executive Summary

## Introduction

The Government of Canada is committed to strengthening the risk management practices in the public service to promote sound decision making and accountability. As such, the Treasury Board of Canada Secretariat (TBS) developed the Framework for the Management of Risk in 2010 to provide a comprehensive approach to better integrate risk management into strategic decision making. TBS has also developed the Management Accountability Framework (MAF), which sets out the TBS's expectations of good public service management. Risk management is one of the essential elements of good management.

The 2012 TBS Policy on Internal Audit requires that the deputy heads receive independent assurance from internal audit, and advice from the departmental audit committee regarding the effectiveness of risk management, control and governance processes.

As the Department of Canadian Heritage (PCH) progresses towards its goal of creating a solid foundation of risk management; this remains a priority to successfully respond to the strategic and operational challenges facing the department.

The authority for this audit is derived from the Multi-Year Risk-Based Audit Plan 2013-2014 to 2015-2016, which was recommended by the Departmental Audit Committee (DAC) and approved by the Deputy Minister in March 2013.

The objective of this audit is to provide assurance that the adequacy and effectiveness of risk management, control and governance processes are in place within the enterprise-wide risk management framework to support strategic priority setting, informed decision-making with respect to risk tolerance, and improved results.

The scope of this audit covered the Department's risk management for the period of fiscal year 2012-13 up to the substantial completion of the audit work.

## Key Findings

Through the audit work, the audit team observed the following examples of good practices.

- A clear mandate and terms of reference are established and roles, responsibilities and accountabilities regarding risk management are well stated in the terms of reference of the governance committees and the Integrated Risk Management Framework (IRMF or the Framework).
- Steering committees are created for special projects to review the project risk assessment and mitigation strategies, and to provide guidance and strategic direction.
- PCH has an IRMF in which risk management processes are clearly defined.

- The Corporate Risk Profile (CRP) includes a mapping of the key risks to one of the three (3) strategic outcomes. These are then linked to the specific activity within one of the eight (8) departmental programs.
- The Strategic Planning Directorate has developed training and awareness sessions to build departmental risk management awareness and capacity. This training was approved by the Executive Committee (EXCOM) and integrated in PCH in 2013-2014 learning priorities.
- PCH has embedded a sound process for assessing external risks as part of its risk management process. Environmental scans and Strengths & Weaknesses, Opportunities and Threats (SWOT) analysis are used in risk identification for internal and external risks.

The results of the audit work identified opportunities for improvement related to risk management and internal control.

## **Risk Management**

- Not all staff and managers are fully aware of how the IRMF guides departmental risk tolerance. The Risk Tolerance Matrix, found in the IRMF, is not fully understood and consistently applied to better manage risks.
- The use of risk management tools to capture and monitor risks is inconsistent across sectors/branches and in some cases not completed.

## **Internal Control**

- There is limited monitoring currently applied to the risk management process to ensure that ongoing risks are captured, performance measures are collected and analyzed and that risk responses are developed to address all risks.

## **Recommendations**

The following are recommendations to address identified areas of improvement.

### **Governance**

There is no recommendation required.

### **Risk Management**

The Director General, Strategic Policy, Planning and Research Branch, should strengthen the provision of continuous guidance and information sessions to staff and management to ensure better understanding and application of risk management. Sessions should focus on: the use of tools outlined in the PCH IRMF; specific guidance on using the Risk Tolerance Matrix and consistently using the Risk Management Table used in the integrated business planning process.

Assistant Deputy Ministers, Branch and Directorate Heads, with support from the Director General, Strategic Policy, Planning and Research Branch, should ensure application of the IRMF with emphasis on the Risk Management Table used in the Integrated Business Plan (IBP) process, and with specific focus on the roles and responsibilities specified in the IRMF to ensure consistent approach across PCH.

## **Internal Control**

The Director General, Strategic Policy, Planning and Research Branch should improve the monitoring and tracking of performance data and measures of the IRMF to demonstrate its implementation and progress to ensure that risk management is functioning well and the expectations of the IRMF are being met.

## **Statement of Conformance**

In my professional judgment as Chief Audit and Evaluation Executive, the audit conforms with the Internal Auditing Standards for the Government of Canada as supported by the results of the quality assurance and improvement program.

## **Audit Opinion**

In my opinion, the Department's corporate risk management process is in place to support strategic priority setting and informed decisions, but requires improvement in the following areas: risk management and internal control. Enhanced training in the use of risk management processes and tools and improved monitoring of the execution of the IRMF are required to ensure the effectiveness of the Department's Integrated Risk Management.

Original signed by

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**Maria Lapointe-Savoie**  
Chief Audit Executive  
Department of Canadian Heritage

## **Audit Team Members**

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With the assistance of audit resources external to PCH



# **1. Introduction and Context**

## **1.1 Authority for the Project**

The authority for this audit is derived from the Multi-Year Risk-Based Audit Plan 2013-2014 to 2015-2016, which was recommended by the Departmental Audit Committee (DAC) and approved by the Deputy Minister in March 2013.

The activities were selected based on the following:

- DAC mandate and areas of responsibilities;
- Identified as part of CAE role to provide assurance and report on the risk management of the Department; and
- Management Consultation.

## **1.2 Background**

In today's environment of constant change and uncertainty, risk is unavoidable and present in most organizational situations. As a result, a systematic approach to risk management is required to deal with the uncertainty that surrounds future events and outcomes. Organizations need to build capacity and adopt risk management practices to manage resources more effectively, make better decisions, and ultimately improve the effectiveness of the public service. Fostering a risk-informed culture and capacity helps to fully realize performance improvements within federal organizations. Failure to effectively manage risks can result in increased program costs and missed opportunities, which can compromise program outcomes, and ultimately public trust.

The Government of Canada is committed to strengthening the risk management practices in the public service. Risk management plays a significant role in strengthening the government capacity to recognize, understand, accommodate and capitalize on new challenges and opportunities. As such, the Treasury Board of Canada Secretariat (TBS) has developed the Framework of the Management of Risk to provide a comprehensive approach to risk management. The framework provides a principles-based approach to risk management with the intent of offering departments and agencies flexibility to tailor management solutions to their mandate and objectives.

The Strategic Planning Directorate within Strategic Policy, Planning and Research is responsible for the development and direction of departmental strategic planning, reporting, performance management, sustainable development and integrated risk management. The following are main functional responsibilities of the Strategic Planning Directorate:

- To be the focal point for Risk Management expertise including the establishment of a Risk Management function;

- To ensure that management direction regarding Risk Management is communicated, understood, and applied;
- To ensure that the Integrated Risk Management Framework (IRMF or the Framework) is implemented through existing decision-making processes and reporting structures as well as ensure that the capacity is built through the development of learning plans and tools;
- To provide post-implementation compliance and oversight of the IRMF;
- To develop departmental *Risk Management Policy*;
- To ensure that strategies and systems are in place to identify, analyze, evaluate, address, monitor and report risks at all levels;
- To coordinate the production of the CRP;
- To be aware of changes to PCH business strategies or risk tolerance and recommend the baseline risk tolerance level to EXCOM and the limits within which management is authorized to act with respect to such risks; and
- To develop tools, guidelines, reference and training material at departmental level.

## 2. Objective

The objective of this audit is to provide assurance that the adequacy and effectiveness of risk management, control and governance processes are in place within the enterprise-wide risk management framework to support strategic priority setting, informed decisions with respect to risk tolerance, and improved results.

## 3. Scope

The scope of the audit covered the Department's risk management for the period of fiscal year 2012-2013 up to the substantial completion of the audit work.

## 4. Approach and Methodology

The audit on Corporate Risk Management Audit was conducted in accordance with the Treasury Board Secretariat's *Internal Auditing Standards for the Government of Canada* and *Policy on Internal Audit*.

The audit methodology included:

- A review of PCH's documentation, guidelines and procedures and policies relevant to corporate risk management;
- A collection of data through interviews with the organization's personnel to examine corporate risk management processes, procedures and practices;
- Analysing information obtained through documentation review and interviews;
- Corroboration of observations with the Entity Level Controls Audit Report dated November 2013.

## 5. Findings and Recommendations

This section outlines the findings and recommendations with respect to the Corporate Risk Management audit. The findings are based on a combination of the evidence gathered through documentation review, analysis, testing, and interviews conducted for each audit criteria. In addition to the findings presented in the audit report, observations of conditions that were non-systemic and of lower materiality and risk were separately communicated for management's consideration and action. Appendix A provides a summary of all findings and conclusions for each of the criteria assessed during the audit. Details of the audit's observations and recommendations are provided below.

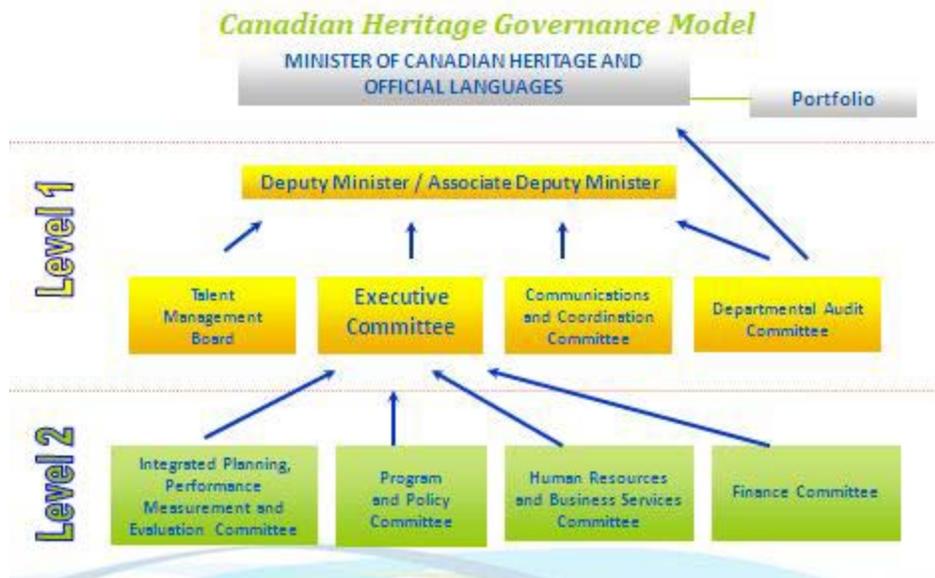
### 5.1 Governance

#### 5.1.1 Governance Structure

Governance involves establishing key oversight bodies for the organization in order to provide a strategic direction and to ensure a clearly communicated mandate. Effective oversight bodies ensure that management's direction, plans and actions are appropriate, and support the delivery of results.

PCH has a clear governance structure in place and roles, responsibilities and accountabilities related to risk management are well established.

Canadian Heritage has a two-level governance structure in place. This governance model streamlines the decision-making process and aligns committee mandates to departmental priorities. In level 2 committees, issues are raised, consultations take place and options are refined before being brought to the Executive Committee for decision and approval.



The following committees are involved in the PCH Integrated Risk Management:

- The Executive Committee (EXCOM), which is a senior decision making committee, acts as Management board by providing overall governance, strategic direction and decision-making support to the Deputy Minister. EXCOM is responsible for the review and approval of the Corporate Risk Profile. It is also responsible for the integrity of the IRMF internal control environment and for ensuring that risk is managed on a department-wide basis.
- The Integrated Planning Performance Measurement and Evaluation committee (IPPMEC) ensures that core planning, reporting, performance measurement; integrated risk management and evaluation functions jointly contribute to a good corporate governance process. The committee ensures an integrated view of risk by considering the effectiveness of risk assessment and risk treatment as well as the overall effectiveness of departmental risk management practices.
- The Program and Policy Committee (PPC) provides a venue for discussion on strategic policy, program management and legal risks.
- The Finance Committee (FIN) which is an advisory and decision making body is responsible for the financial planning and forecasts of the Department, including examination of financial trends and risks.
- The Human Resources and Business Services Committee is responsible for reviewing, endorsing, approving and providing leadership on departmental issues, and risks associated with human resources management and organisational changes.

Roles, authorities and accountabilities as they pertain to risk management are clearly stated in the committee's terms of references. Details of risk management roles and responsibilities have been established in the PCH IRMF and have been sufficiently communicated.

The audit team noted that the Steering Committees are created for special projects such as the Grants and Contributions Modernization Initiative (GCMi) and Toronto 2015 PANAM Games Projects to regularly review projects' risks and define mitigation strategies.

A formal communication process is in place to ensure that all significant issues related to risk management are well communicated to the oversight bodies involved in the risk management. IPPMEC periodically reviews sector ranked risks as well as updates to the Corporate Risk Profile (CRP), considers risks tolerance and makes recommendations to EXCOM.

The audit concluded that the governance structure currently in place within PCH is effective. Roles, responsibilities and accountabilities are well-understood and consistently applied by their respective members.

## **Recommendation**

No recommendation as a result of this positive finding.

## **5.2 Risk Management**

### **5.2.1 *Integrated Risk Management Framework***

PCH has a formal Integrated Risk Management Framework (IRMF) in place which has been communicated throughout the Department.

Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, making decisions on and communicating risk issues. It includes establishing and maintaining an effective risk management framework.

The PCH's Framework builds upon existing practices and provides an overall structure that focuses on the management of corporate and operational risks that could impact the achievement of organizational objectives. The key objective of the framework is to provide the structure and tools to practice integrated risk management consistently throughout the Department. More specifically it aims at setting a baseline of standard practices and ensuring that risk information is presented in an integrated manner. The Framework's objectives are achieved by implementing the following components:

1. A Risk Policy
2. Risk Processes and Tools
3. Risk Communication
4. Risk Learning

The PCH Framework was finalized and presented to the IPPMEC and DAC committees before the EXCOM approval in November 2012. The Deputy Minister and Associate Deputy Minister, announced the IRMF, via a departmental message in October 2013, emphasizing that the IRMF will help foster a culture of responsible risk-taking that encourages learning, innovation and continuous improvement. Management was encouraged to discuss the importance of risk management with their staff and how each employee can play a part in the Department's risk management. The Strategic Planning Directorate is responsible for the IRMF implementation and for developing tools, guidelines, reference and training material at the departmental level.

The PCH risk management steps are well outlined and explained. Risk management roles and responsibilities are documented at a strategic and operational level. As well, functional areas of management are detailed in the IRMF. A list of risk management

activities and processes is also provided to ensure the consistency throughout the Department.

The audit team noted that staff was invited, when the IRMF was launched, to complete the online introduction to risk management course that was offered by the Canada School of Public Service. A link to the IRMF was also provided on the PCH intranet site. Strategic Planning has provided some workshops to further communicate the contents of the IRMF to ensure that staff are aware of the IRMF, CRP and their respective tools.

## **Recommendation**

No recommendation.

### **5.2.2 Risk Tolerance**

Not all staff and managers are fully aware of how the IRMF guides departmental risk tolerance. The Risk Tolerance Matrix, found in the IRMF, is not fully understood and consistently applied to better manage risks.

## **Analysis**

Risk tolerance is the willingness of an organization to accept or reject a given level of residual risk (exposure). Risk tolerance may differ across the organization, but must be clearly understood by the individuals making risk-related decisions on a given issue. Clarity on risk tolerance at all levels of the organization is necessary to support risk-informed decision-making and foster risk-informed approaches.

At PCH, the Deputy Minister is responsible for providing guidance and setting the overall level of risk tolerance in PCH through the IBP, the CRP and the assessment of risk alert levels in the Risk Tolerance Matrix of the Framework.

The CRP is a strategic document that identifies the key, significant risks in managing PCH grants and contributions programs as well as policies, plans and other programs. PCH management and governance committees play an important role in the setting and communicating of risk tolerance levels. The CRP includes risks selected by the governance committees after a careful assessment of the key risks stemming from the departmental risk register, while taking into consideration the Department's risk tolerance levels. As a part of the CRP process, the IPPMEC proposes the levels of risk for each corporate risk and the EXCOM then finalizes the assignment of risk ratings for those key risks identified in the CRP.

The level of risk tolerance at PCH is guided by the Risk Tolerance Matrix, a Framework tool. The matrix guides the risk tolerance (alert) levels for the Department by demonstrating, through color grids, the recommended response to a given level of risk. The color distributions are used to set the tone for all risk responses. The color gradient specifies when risk should be elevated to the next management level and is intended to

encourage managers to adopt a risk-based management approach that is appropriate to their operations.

Based on interviews conducted, the audit team noted that the understanding of departmental risk tolerance level was inconsistent across interviewees. Some of the operational staff and management interviewed were not aware that the Department had an established guide to risk tolerance levels while others, instead of explaining the departmental risk tolerance level, indicated that the government as a whole is generally risk averse.

The examination of the use of the Risk Tolerance Matrix tool revealed that this tool is not understood by staff and therefore applied inconsistently by branches and sectors. The audit team observed that different scales for assessing risk likelihood and impact are applied. Some are using low/medium/high, while some others use colors (green, orange and yellow) or numbers (1, 2, 3...). Furthermore, some interviewees indicated that they are more at ease with using their branch or program risk management tools instead of using the recommended IRMF's Risk Tolerance Matrix.

Some managers interviewed mentioned that their staff indicated that the use of Risk Tolerance level is not well communicated. Therefore, the operational staff are unable to understand and escalate the risks outside of its tolerance level of risk.

## **Risk Assessment**

The Risk Tolerance Matrix explains when, how and to whom risk should be communicated throughout the department. Managers and employees are responsible for elevating risks that cannot be treated effectively at their level. Without using the defined risk tolerance guidance, variances in individual risk appetite and risk aversion may increase, resulting in employees being unable to anchor their risk assessment to a defined, department-wide risk scale.

### **5.2.3 Risk Management Tools**

The use of risk management tools to capture and monitor risks is inconsistent across sectors/branches and in some cases not completed.

## **Analysis**

The CRP provides an overview of key risks linked to an understanding of the organization's strategic and operations objectives with respect to managing risk. PCH has had a CRP since 2009. Since 2012, the CRP is built on a three year cycle with an annual update. The process of developing and updating the CRP is integrated within PCH's planning, and reporting cycle.

Developing a CRP involves taking an inventory of the organization's operating environment and its ability to deal with key high-level risks related to the achievement of corporate objectives.

PCH has a formal process in place with a Top-Down and Bottom-Up methodology for developing and updating the CRP. The CRP is compiled with input from operational and functional areas. Senior management leadership is a key driver for the development, implementation and ongoing improvement of the CRP so that it remains relevant, evergreen, and adds value to the decision-making process.

The Top-Down approach is deliberately taken to ensure risk identification is streamlined, risks are properly identified at the corporate level, and risks are assessed as per risk tolerance levels set by senior management.

The Bottom-Up approach consists of risk analysis at the branch /sector level through a section in the integrated business plans. These risks are then recorded in the Departmental Risk Register, which is then used as an input to the Department IBP.

PCH has developed risk management tools and processes to properly identify, assess and prioritize risks in order to develop and update the CRP. The following are key tools used to identify, assess and collect risks at branch and sector levels:

- Risk Management Table included in the IBP;
- Risk Tolerance Matrix included in the Framework ; and
- Departmental Risk Register included in the department IBP.

There is an expectation that operational risks are identified, assessed, prioritized and monitored at the branch-level through the Risk Management Table of the IBP. This process should be undertaken by using the Risk Tolerance Matrix that represents the PCH's risk tolerance levels to set the tone for all risk responses.

The Departmental Risk Register is derived from branch and sector Risk Management Tables included in their respective IBPs. It is a compilation of all of PCH's most significant risks included in the departmental IBP. Once the Departmental Risk Register is completed and information has been assessed, senior management is further consulted.

Even though PCH has developed risk management tools for an integrated risk management process, the audit team noted that the use of risk management tools within branches is inconsistent. In some cases, the Risk Management Table is completed only at the sector level while other sectors collect the Risk Management Tables from branches and roll them up to the sector level. It was also noted that some branches do not complete the Risk Management Table.

A review of the Departmental Risk Register revealed that risks that are identified at the sector level are at a high level and may not represent all operational risks at a branch level. Different scales in evaluating risks are also used by some branches and sectors which may lead to confusion.

As indicated previously, interviewees considered the IRMF's Risk Tolerance Matrix to be difficult to understand. Staff and management prefer to use existing tools for the purpose of ongoing risk management.

It was observed that the use of risk management tools is not fully used for the benefit of the department. This situation is considered to be caused by the fact that risk management tools are not well understood and communication is not sufficiently emphasized in order to ensure application by staff. Even though the document is available on the PCH intranet, some managers indicated that they recalled receiving the email communicating the IRMF but they had not read the document or that they have not had the discussions with their staff.

## **Risk Assessment**

Sector and Branch IBP with Risk Management Tables are an important tool that allow operational employees to consult and validate risks. The understanding of the risk management tools is the key to the IRMF process. A consistent application of risk management tools across the department will ensure that all risks are captured and senior management are aware of risks that are most significant to the Department and that can prevent the achievement of organizational objectives.

## **Recommendations to Risk Tolerance (5.2.2) and Risk Management Tools (5.2.3)**

- The Director General, Strategic Policy, Planning and Research Branch, should strengthen the provision of continuous guidance and information sessions to staff and management to ensure better understanding and application of risk management. Sessions should focus on: the use of tools outlined in the PCH IRMF; specific guidance on using the Risk Tolerance Matrix and consistently using the Risk Management Table used in the integrated business planning process.
- Assistant Deputy Ministers, Branch and Directorate Heads, with support from the Director General, Strategic Policy, Planning and Research Branch, should ensure application of the IRMF with emphasis on the Risk Management Table used in the Integrated Business Plan (IBP) process, and with specific focus on the roles and responsibilities specified in the IRMF to ensure consistent approach across PCH.

## **5.3 Internal Control**

### **5.3.1 Monitoring**

There is limited monitoring currently applied to the risk management process to ensure that ongoing risks are captured, performance measures are collected and analyzed and that risk responses are developed to address all risks.

## **Analysis**

Risk monitoring is the process of providing an oversight of the risk management process and it ensures that it is functioning well and risks are being managed. Risk monitoring is important as it helps ensure that risks and mitigation actions are still relevant and beneficial.

The IRMF requires that branches examine, over a period of time, the identified risks its response strategy and activities with respect to the organization's risk tolerance level. Considering new or ongoing risks may lead to modifications in the original mitigation plan. Based on this, the Risk Management Tables of the sector's IBP should be reviewed and updated as required to ensure Department Risk Registers are up to date and mitigation strategies are adjusted accordingly.

According to the interviewees, after branch and sector IBP's are prepared and finalized, there is no evaluation on the progress of the branch/sector IBP during the year. Some managers indicated they did not review branch/sector risks until it was the time to prepare the subsequent year's IBP.

However, staff and management are seeing the three identified corporate risks in the CRP 2012-2015 as generic and this may not capture all the key risks for the organization. As a result, Risk Management Tables may not be updated even though there is an event or change in circumstances that may lead to a change in the initial risk assessment. The Department Risk Register may, therefore, not be updated until the subsequent year's IBP process.

It was indicated, however, that there are informal meetings that are being held at the branch level, which provide management an opportunity to discuss operational risks. In addition, at the corporate level, risk management is a core agenda item according IPPMEC and EXCOM terms of reference.

Since the IRMF was presented in February 2012, the Strategic Planning Directorate is responsible for collecting information, on training and awareness sessions and provides information such as the number of staff reached or attended. A Performance Measurement Plan and a Performance Measurement Strategy are two of the series of plans that were presented when the IRMF was officially launched in September 2013 to ensure the implementation of the Framework.

Even though this information is collected, the audit team noted that the information has not been assessed to guide branches/sectors, or to provide an overall assessment of the IRMF implementation in order to ensure that issues related to IRMF implementation and the use of risk management tools are reported and strategies are adjusted accordingly.

## **Risk Assessment**

Monitoring is a key step in the risk management process. The audit noted that improvements in terms of monitoring and oversight are required to support effective risk

management process at PCH. These improvements would ensure that key risks and changing conditions are captured and mitigation measures are developed to address risks that may prevent management achieving operational objectives. The use of risk management tools and processes should be part of the monitoring system to ensure that management tools are fully understood and implemented.

## **Recommendation**

- The Director General, Strategic Policy, Planning and Research Branch should improve the monitoring and tracking of performances data and measures of the IRMF to demonstrate its implementation and progress to ensure that risk management is functioning well and the expectations of the Integrated Risk Management Framework are being met.

## Appendix A – Audit Criteria

The conclusions reached for each of the audit criteria used in the audit were developed according to the following definitions.

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well Controlled	<ul style="list-style-type: none"> <li>• well managed, no material weaknesses noted; and effective.</li> </ul>
2	Controlled	<ul style="list-style-type: none"> <li>• well managed, but minor improvements are needed; and</li> <li>• effective.</li> </ul>
3	Moderate Issues	<p>Has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> <li>• control weaknesses, but exposure is limited because likelihood of risk occurring is not high;</li> <li>• control weaknesses, but exposure is limited because impact of the risk is not high.</li> </ul>
4	Significant Improvements Required	<p>Requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> <li>• financial adjustments material to line item or area or to the department; or</li> <li>• control deficiencies represent serious exposure; or</li> <li>• major deficiencies in overall control structure.</li> </ul> <p>Note: Every audit criteria that is categorized as a “4” must be immediately disclosed to the CAEE and the subjects matter’s Director General or higher level for corrective action.</p>

The following are the audit criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn.

<b>Audit Objective:</b> Assess the adequacy and effectiveness of risk management, control and governance processes in place within the enterprise-wide risk management framework to support strategic priority, informed decisions with respect to risk tolerance, and improved results.			
<b>Criteria #</b>	<b>Audit Criteria</b>	<b>Conclusion</b>	<b>Examples of Key Evidence / Observation</b>
<b>Governance</b>			
1.1	The risk management culture and governance structure ensures a clear and effective corporate risk management is in place at PCH.	1	<ul style="list-style-type: none"> <li>• The governance structure consists of Level 1 and Level 2 committees.</li> <li>• The governance structure is clear and effective.</li> </ul>
1.2	Oversight bodies related to corporate risk management are effective.	1	<ul style="list-style-type: none"> <li>• Level 1 and Level 2 committees have been established to provide oversight on risk management (IPPMEC and EXCOM).</li> <li>• These committees have reviewed and approved the CRP and IRMF</li> <li>• Interviews indicated that roles and responsibilities related to risk management are working as intended.</li> </ul>
1.3	Risk management accountabilities, roles and responsibilities and reporting requirements for all parties involved in risk management have been communicated and are clearly understood.	2	<ul style="list-style-type: none"> <li>• Terms of Reference outline accountabilities of both the IPPMEC &amp; EXCOM.</li> <li>• DGs and Managers interviewed have a good understanding of their roles, responsibilities and accountabilities with respect to risk management.</li> <li>• Operational staff is not fully aware of roles and responsibilities.</li> </ul>
1.4	PCH has clearly defined business objectives and operational plans are aimed at achieving strategic objectives.	2	<ul style="list-style-type: none"> <li>• There is an IBP process in place which considers business objectives and operations plans</li> <li>• An established Program Alignment Architecture exists and all risks are linked to it.</li> <li>• RPPs and DPRs include organizational priorities, strategic outcomes and a summary of the progress of each priority for the Department.</li> <li>• Not all Branches or Sectors have completed the Risk Management Table of the IBP.</li> </ul>

<b>Audit Objective:</b> Assess the adequacy and effectiveness of risk management, control and governance processes in place within the enterprise-wide risk management framework to support strategic priority, informed decisions with respect to risk tolerance, and improved results.			
<b>Criteria #</b>	<b>Audit Criteria</b>	<b>Conclusion</b>	<b>Examples of Key Evidence / Observation</b>
<b>Risk Management</b>			
1.5	Senior management and senior level committees oversee the monitoring and performance of its IRM framework on a continuous basis, with a view of adapting it to changing conditions and improving it.	3	<ul style="list-style-type: none"> <li>• Strategic Planning Directorate conducts annual Risk Management Capability Assessments</li> <li>• There is no evaluation on the progress of the branches/sectors IBP during the year.</li> <li>• Information collected has not been assessed to guide potential branches/sectors, or to provide an overall assessment of the IRMF implementation in order to ensure that issues related to IRMF</li> </ul>
1.6	PCH has a formal Integrated Risk Management Framework in place which has been communicated and implemented.	1	<ul style="list-style-type: none"> <li>• An approved and implemented integrated risk management framework has been developed.</li> <li>• An Integrated Risk Management online course is provided support and build awareness of the IRMF and its concepts.</li> <li>• There is a good awareness of the framework at the senior management level but managers interviewed felt this was not the case at the operational level.</li> </ul>
1.7	PCH proactively monitors its economic, political, demographic, regulatory, legislative and operational conditions, which may negatively impact its objectives, business conditions and risk profile.	2	<ul style="list-style-type: none"> <li>• Environmental scans and SWOT exercises are conducted annually as part of the IBP process.</li> <li>• The IRMF identifies potential external risks and potential sources of external risk information as guidance in identifying and assessing such risks.</li> <li>• The 2012-13 Report on Plans &amp; Priorities includes an explanation of key external risks.</li> <li>• Not all branches identified external risks in their IBP risk registers.</li> <li>• Some environmental scans were brief</li> </ul>

<b>Audit Objective:</b> Assess the adequacy and effectiveness of risk management, control and governance processes in place within the enterprise-wide risk management framework to support strategic priority, informed decisions with respect to risk tolerance, and improved results.			
<b>Criteria #</b>	<b>Audit Criteria</b>	<b>Conclusion</b>	<b>Examples of Key Evidence / Observation</b>
			and did not demonstrate that a thorough external scan was conducted.
1.8	PCH assesses the risks it faces on a continuous basis; by estimating the likelihood of risk events and the possible consequences should they occur. Risk information is then used for decisions making and planning.	2	<ul style="list-style-type: none"> <li>• The IBP process results in an annual assessment of risks and potential risks.</li> <li>• Risk information included in Risk Management Tables from the IBPs are rolled up and used for decision making and planning.</li> <li>• There is no ongoing process to identify and assess risks throughout the year. There are however informal discussions on risk management which is part of the day-to-day decision making planning process</li> <li>• At the program and project level risk, management is strong, most notably per review of the GCMI and 2015 Toronto PANAM Games projects.</li> </ul>
1.9	PCH explicitly selects and communicates its response to the risks it faces in a manner consistent with defined risk tolerances, and particularly when the assessment reveals levels of exposure that should trigger specific actions according to the ERM policy.	3	<ul style="list-style-type: none"> <li>• There is a documented Risk Tolerance Matrix within the IRMF which communicates and guides the risk tolerance set for the Department. It outlines the risk alert levels and likelihood and impact scales.</li> <li>• The CRP and Risk Management Tables in the IBPs are documented, disseminated and included mitigation strategies.</li> <li>• Interviewees did not have a strong grasp of the Department's risk tolerance levels and some felt it was not communicated well.</li> </ul>
<b>Internal Control</b>			
1.10	A suite of risk management methods, tools, and training exist and addresses all facets of the risk management process.	3	<ul style="list-style-type: none"> <li>• There is an extensive suite of risk management tools (e.g. Risk Tolerance Matrix, risk categorization chart, glossary of risk terminology, risk planning and reporting calendar, risk sources, and a risk process description)</li> </ul>

<b>Audit Objective:</b> Assess the adequacy and effectiveness of risk management, control and governance processes in place within the enterprise-wide risk management framework to support strategic priority, informed decisions with respect to risk tolerance, and improved results.			
<b>Criteria #</b>	<b>Audit Criteria</b>	<b>Conclusion</b>	<b>Examples of Key Evidence / Observation</b>
			<ul style="list-style-type: none"> <li>• Annually the SPPRB provides templates to branches/sectors for completing risk registers and IBPs.</li> <li>• Various training and information sessions exist and have been offered with regards to risk management.</li> <li>• Risk management has been identified as a Departmental learning priority.</li> <li>• There are some inconsistencies in branches/sectors risk registers.</li> </ul>
1.11	PCH assesses the adequacy and effectiveness of the system of internal controls on a regular basis and when significant events alter their business conditions.	<b>1</b>	<ul style="list-style-type: none"> <li>• The Department conducts regular assessments and testing of its internal controls over financial reporting.</li> <li>• PCH has a process to identify controls over key areas including Gs&amp;Cs.</li> <li>• The Finance Committee and DAC core agenda items include review of internal and management control frameworks and assessments.</li> <li>• MAF Assessments are used to assess the effectiveness of internal controls.</li> </ul>

## Appendix B – Management Action Plan

Project Title: Corporate Risk Management Audit

<b>Management Action Plan</b>			
<b>5.2.2 Risk Tolerance and 5.2.3 Risk Management Tools</b>			
<b>Recommendation</b>	<b>Actions</b>	<b>Who</b>	<b>Target Date</b>
The Director General, Strategic Policy, Planning and Research Branch, should strengthen the provision of continuous guidance and information sessions to staff and management to ensure better understanding and application of risk management. Sessions should focus on: the use of tools outlined in the PCH IRMF; specific guidance on using the Risk Tolerance Matrix and consistently using the Risk Management Table used in the integrated business planning process.	Agreed. SPPRB will review and modify the new 3-hour RM workshop now offered to PCH through HRWMB In-House Learning, and will adjust guidance documents to better explain how to effectively use RM tools, including the Risk Tolerance Matrix and the RM Table that is a core element of PCH business planning.	DG SPPRB	
	Review and modify existing guidance materials to strengthen application of the IRMF RM tools		October 2014
	Review and modify the RM workshop sessions as part of HRWMB In-House Learning to include emphasis on how to effectively apply the RM tools.		March 2015
<b>Recommendation</b>	<b>Actions</b>	<b>Who</b>	<b>Target Date</b>
Assistant Deputy Ministers, Branch and Directorate Heads, with support from the Director General, Strategic Policy, Planning and Research Branch, should ensure application of the IRMF	Agreed. ADM SPPCA will assume accountability to respond to this recommendation and will coordinate to share the accountability with the rest of the PCH		

<p>with emphasis on the Risk Management Table used in the Integrated Business Plan (IBP) process, and with specific focus on the roles and responsibilities specified in the IRMF to ensure consistent approach across PCH.</p>	<p>ADM's. ADM SPPCA will provide a summary of PCH RM roles and responsibilities under the PCH Integrated Risk Management Framework (IRMF) to ADMs and DM Direct Reports for communication. Following communication and the delivery of information sessions and the revised RM workshop, SPPRB will furnish a monitoring report for IPPMEC approval that will cover the degree of consistent approach across PCH, with special emphasis on risk assessment in the IBP process.</p> <p>Provide a summary of IRMF roles and responsibilities to ADMs and DM Direct Reports for communication.</p> <p>Information sessions delivered through various fora (e.g. dedicated EXCOM session, DG and Director Forums, management tables)</p> <p>Provide a monitoring report to the IPPMEC Committee</p>	<p>ADM SPPCA, ADM's, DM Direct Reports and the DG, SPPRB</p> <p>ADM SPPCA</p> <p>DG SPPRB</p> <p>DG SPPRB</p>	<p>October 2014</p> <p>November 2014</p> <p>March 2015</p>
<p><b>5.3.1 Monitoring</b></p>			
<p><b>Recommendation</b></p>	<p><b>Actions</b></p>	<p><b>Who</b></p>	<p><b>Target Date</b></p>
<p>The Director General, Strategic Policy, Planning and Research Branch should improve the monitoring and tracking of performance data and measures of the IRMF to demonstrate its</p>	<p>Agreed. DG SPPRB will establish a baseline of information beginning with a survey of the PCH EX community. This will be followed by the development of a set of indicators for</p>		

<p>implementation and progress and to ensure that risk management is functioning well and the expectations of the IRMF are being met.</p>	<p>IPPMEC review and approval that will be designed to monitor and track implementation of the Integrated Risk Management Framework (IRMF) and which will also indicate the extent to which PCH RM is functioning well and meeting the expectations of the TBS Management Accountability Framework (MAF) and the IRMF.</p> <p>Administer a RM survey to PCH EX community on their engagement and management of risk</p> <p>Create a set of RM monitoring indicators for IPPMEC review and approval</p> <p>Provide a monitoring report to the IPPMEC Committee</p>	<p>DG SPPRB</p>	<p>June 2014</p> <p>October 2014</p> <p>March 2015</p>
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