Audit of Risk Management
Final Report

March 25, 2010

Prepared by Internal Audit & Evaluation for the:
Audit and Evaluation Committee meeting of March 25, 2010
Finance Canada
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Executive Summary

As part of the Government of Canada’s commitment to strengthening risk management practices in the public service, the Treasury Board of Canada Secretariat (TBS) developed the Integrated Risk Management Framework (IRMF) in 2001. The IRMF defines integrated risk management as a continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective. It is about making strategic decisions that contribute to the achievement of an organization's overall corporate objectives.

The objective of the Audit of Risk Management is to provide the Department of Finance (the Department) with reasonable assurance that the corporate risk management framework and processes it has in place effectively identify, assess and manage corporate risks.

Our audit concluded that overall, the Department has developed an adequate Corporate Risk Profile (CRP) and has established an Integrated Risk Management (IRM) function, in line with good management practices and the TBS guidelines on IRMF. The Department has implemented the elements of an effective risk management framework; however, some elements of the communication strategy presented in the Corporate Risk Profile (CRP) have not been fully implemented.
Background

History
As per the Treasury Board Policy on Internal Audit, risk management is a mandatory element of internal audit coverage. Consequently, the Audit of Risk Management has been included as part of the Department’s three-year risk-based audit plan, which was approved by the Deputy Minister upon the recommendation of the Audit and Evaluation Committee.

Background
As part of the Government of Canada’s commitment to strengthening risk management practices in the public service, TBS developed the IRMF in 2001. The IRMF provides Departments with guidance on developing their risk management function so that they may be more effective in identifying and mitigating risks, which would otherwise affect their ability to meet departmental objectives.

As per the IRMF, the primary element of establishing an effective risk management framework is for an organization to develop a Corporate Risk Profile (CRP). The CRP is an effective tool used to identify key corporate risks such as infrastructure risks, people risks, policy risks and process risks and establish strategies to mitigate these risks.

In the Department, the Corporate Services Branch provides leadership towards integrating risk management at all levels and provides guidance to branches, as required. The ultimate responsibility for implementing effective risk management; however, rests with all employees, particularly the management team.
Audit Objective and Scope

Objective
The objective of the Audit of Risk Management is to provide reasonable assurance that a corporate risk management framework and processes are in place and that corporate risks are identified, assessed and managed.

Scope
The scope of the audit includes assessing risk management practices at the corporate and branch levels.

At the corporate level, the audit examines the Department’s CRP for the purpose of assessing the integrated risk management function. Other integrated risk management practices at the departmental level were also assessed.

At the branch level, the audit examines practices and processes regarding the implementation of the integrated risk management framework, such as the manner in which each branch establishes the necessary systems and appropriate mitigation strategies to implement risk management in their respective functions.

The scope of the audit does not include the following:
- An assessment of the appropriateness of the ten key risk areas identified in the CRP.
- An assessment of the appropriateness of policy recommendations.
The audit was conducted in accordance with the *International Standards for the Professional Practices of Internal Auditing*. These standards require that the audit be planned and performed in such a way as to obtain reasonable assurance that the audit objective was achieved. During the audit, appropriate procedures were followed and sufficient evidence was obtained to support the accuracy of findings and conclusions presented in this report. Audit procedures included, but were not limited to, interviews, observations, review of supporting documentation, and analytical reviews. The audit criteria used to develop the required audit tests were based on: (1) good management practices; and (2) applicable policies and regulations, in particular the TBS guidelines on IRMF, and relevant elements of the Office of the Comptroller General’s Core Management Controls.

In total, 18 individuals were interviewed including personnel from each of the Department’s nine branches, specifically two senior representatives per branch in most instances. The complete list of personnel interviewed is provided in Appendix A. In addition, the audit team conducted a review of relevant policies, standards, directives and related documents (list provided in Appendix B).

The audit approach allowed for the audit results to be communicated in such a manner as to enable management to review and provide feedback on the findings and conclusions before they were finalized.
Conclusions

The audit concluded that overall, the Department’s Risk Management practices are in line with good management practices and the TBS guidelines on Integrated Risk Management Framework (IRMF). In particular, the following good management practices and key aspects are worth noting:

- The Department has a standard approach to risk management and an approved Corporate Risk Profile (CRP) that identifies key risks.
- The Department has established an Integrated Risk Management (IRM) function led by the Corporate Planning Division (CPD) of the Corporate Services Branch (CSB).
- Risk Management is practiced enterprise-wide and at the branch levels.

An effective communication strategy is an essential part of fostering a corporate culture that enables effective and integrated risk management at every level of the organization, including the sharing of best practices. The Department has implemented the elements of an effective risk management framework; however, some elements of the communication strategy presented in the Corporate Risk Profile (CRP) have not been fully implemented.
The following table presents the assessment of the level of risk exposure identified in the audit. Levels of risk exposure are categorized by audit criteria.

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<td>High exposure</td>
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<tr>
<td>Medium exposure</td>
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<tr>
<td>Low exposure</td>
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The audit criteria used to assess the risk exposure are based on good management practices, the TBS guidelines on IRMF and relevant elements of OCG Core Management Controls related to risk management.

The risk ranking is based on the level of risk exposure. A high, medium or low ranking corresponds to the potential risk exposure auditors believe may have an impact on the achievement of Department objectives, and is indicative of the priority management should give to address the recommendations.

The assessment summarizes the audit observations based on the factual evidence gathered and analyzed during the audit. Based on these assessments, issues/themes along with potential causes, impacts, management initiatives and recommendations are summarized in the “Recommendations and Management Responses” section.
Establishing the Corporate Risk Profile

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Risk Exposition</th>
<th>Assessment</th>
</tr>
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<tbody>
<tr>
<td>The Corporate Risk Profile of the Department has identified and highlighted key corporate risk areas</td>
<td>Low</td>
<td>The Department has a standard approach to risk management and an approved Corporate Risk Profile (CRP) which identifies key risks. The Department has had a CRP since November 2007 and its status is reviewed three times a year as part of the integrated planning cycle, with changes to the CRP included as warranted. This has led to revisions to the CRP in November 2008 and June 2009. The process of developing and updating the CRP is integrated within the Department’s planning, monitoring and reporting cycle. The Department’s major risks identified in the CRP are regularly reviewed as part of the integrated planning process. An environmental scan involving all branches is usually conducted three times a year, threats and opportunities are identified, mitigation strategies are developed and progress on the implementation of these strategies is monitored. The risks in the CRP are identified by management as risks that would most affect the Department’s ability to achieve its objectives. The most recent CRP was reviewed and discussed with senior management at various committees, including the Departmental Coordinating Committee (DCC), prior to receiving final approval at the Executive Committee (EXEC) on June 5, 2009.</td>
</tr>
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### Findings by Audit Criteria

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<thead>
<tr>
<th>Criteria</th>
<th>Risk Exposure</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practicing Integrated Risk Management</td>
<td>Low</td>
<td>The Department has established and implemented an Integrated Risk Management (IRM) function led by the Corporate Planning Division (Corporate Planning) of the Corporate Services Branch (CSB). The Corporate Planning within the CSB provides horizontal support and leadership to all branches on matters related to risk management, by providing advice and coordinating activities related to the function. As part of the integrated planning process, each branch regularly assesses the risks relevant to their area and develops corresponding mitigation strategies. This risk information is collected from the branches and assessed through a standard planning template by the Corporate Planning, with the support of the Department’s Planning Network (Network). The Network is made up of representatives from all branches in order to integrate business planning and risk management across the Department. The information collected in these templates is updated three times a year by the branches and forms the basis of changes to the CRP as warranted.</td>
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Findings by Audit Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Risk Exposure</th>
<th>Assessment</th>
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<tbody>
<tr>
<td>Practicing Integrated Risk Management (continued from the previous page)</td>
<td>Low</td>
<td>Once templates have been completed and information has been assessed, senior management is further consulted through the DCC for their review, prior to a final review and approval from the EXEC. The risk identification process is rigorous and considers internal and external risk exposures. This process results in the identification of the ten major risk areas documented in the CRP, which are categorized into four groups: (1) policy risks, (2) people risks, (3) infrastructure risks and (4) process risks. In addition to the CRP risks, each branch identifies other risks that could impact their specific subject business areas. During 2009-2010, the branches identified approximately thirty additional risks during one of three integrated planning exercises. Mitigation strategies were developed and included in each of the branches’ respective business plans.</td>
</tr>
<tr>
<td>The Department implements and practices Integrated Risk Management within an established framework</td>
<td>Low</td>
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### Findings by Audit Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Risk Exposure</th>
<th>Assessment</th>
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<tbody>
<tr>
<td>Practicing Integrated Risk Management (continued from the previous page)</td>
<td>Low</td>
<td>The integrated approach to risk management is complemented by appointing “risk champions”, at the Assistant Deputy Minister level for each risk identified in the CRP. These “risk champions” are responsible for ensuring effective synchronized mitigation strategies for the department-wide key corporate risk assigned to them; however, their involvement beyond their Branch is limited. Although the Department has an effective integrated approach to risk management, some elements of the communication strategy presented in the CRP have not been fully implemented. For the most part, these relate to communicating key corporate messages more widely across Branches to management and all staff regarding: (1) availability of the risk management website, (2) recommended risk management tools; (3) important updates to the department-wide risk management strategy; and (4) sharing and discussing best practices at department-wide forums such as the general assembly and the annual executive retreat. An effective communication strategy is an essential part of fostering a corporate culture that enables effective and integrated risk management at every level of the organization, including the sharing of best practices.</td>
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Recommendations and Management Action Plan

The following section presents the key opportunity for improvement stemming from the audit findings. The impact and recommendation is also stated. Where applicable, the relevant management initiatives already underway are included. For the recommendation, management has provided:

- An action plan, which addresses the recommendation;
- The position responsible for implementing the action plan; and,
- The target date for completion.
1. Foster Communications Around Risk Management Best Practices

Summary of the Audit Finding and its Impact

As part of its Integrated Risk Management Framework and consistent with best practices, the Department has established a communication strategy. Effective communication is essential to increasing awareness and effective implementation of key risk management practices at all levels, particularly risk mitigation strategies. Although the Department has an effective integrated approach to risk management, some elements of the communication strategy presented in the CRP have not been fully implemented. For the most part, these relate to communicating key corporate messages more widely across Branches to foster the sharing of best practices among management and all staff.

Fully implementing an effective communication strategy will further improve management and staff’s awareness of the Corporate Risk Profile and encourage the use of available tools, such as the Department’s website on risk management. Ultimately, increasing risk management awareness and the sharing of best practices will better enable the Department to achieve its objectives.

<table>
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<tr>
<th>Recommendation</th>
<th>Management Response</th>
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<td>It is recommended that the ADM, Corporate Services Branch (CSB), in cooperation with the ADM, Consultations and Communications (C&amp;C) Branch, fully implement the communication strategy for risk management.</td>
<td>The ADM CSB, in cooperation with the ADM C&amp;C Branch, is committed to continue to foster communications around risk management. The Director Corporate Planning will work with Finance Branches to validate which form of communication is best suited to increase awareness of risk management practices across the Department, as part of the comprehensive review of the Corporate Risk Profile planned for summer 2010. The communications strategy will be updated based on review findings by the end of Q2 2010-11. The ADM-CSB will then work to implement the updated communications strategy with a focus on increasing risk management awareness and the sharing of best practices among management and staff across all Branches. It is expected that the communication strategy will be fully implemented by the end of Q2 2011-12.</td>
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Members of the Audit Team

The members of the audit team are:

- Roger Vachon, Master in Administration, Audit Manager
- Olivia Zhu, MPA, CIA, Senior Auditor
- Ziad Shadid, CGA, Audit Manager
- Christian Kratchanov, MBA, CIA, Chief Audit Executive
Appendix A - List of Department of Finance Canada Personnel Interviewed

Jean- Michel Catta, General Director, Consultations and Communications Branch
Chris Forbes, General Director, Federal-Provincial Relations and Social Policy Branch
David Gamble, Director - Public Affairs & Operations Division, Consultations and Communications Branch
Barb Gibbon, Director – Corporate Planning, Corporate Services Branch
James A. Haley, General Director, International Trade & Finance Branch
Sherry Harrison, Chief Financial Officer and Executive Director, Corporate Services Branch (acting ADM Corporate Services Branch at the time of the audit interview)
Nancy Horsman, General Director, Tax Policy Branch
Claude Lavoie, Director – Economic Studies & Policy Analysis Division, Economic and Fiscal Policy Branch
Clifton Lee-Sing, Chief – Financial Markets Division, Financial Sector Policy Branch
Sheila Macdonald, Chief-International Policy & Analysis Division, International Trade and Finance Branch
Erin O’Brien, Chief - Policy Analysis & Coordination, Economic Development & Corporate Finance Branch
Hélène Shirreff, Senior Analyst – Corporate Planning, Corporate Services Branch
Trevor J. Smith, Special Advisor and Counsel to the ADM, Law Branch
Rob Stewart, General Director, Financial Sector Policy Branch
Peter Turner, Chief – Personal Income Tax Division, Tax Policy Branch
Julie Turcotte, Chief – Economic Studies and Policy Analysis Division, Economic and Fiscal Policy Branch
Nipun Vats, Senior Chief – Federal-Provincial Relations Division, Federal-Provincial Relations and Social Policy Branch
Kathy Wesley, Director - Access to Information and Privacy Division, Law Branch
Appendix B – List of Key Documents consulted

Legislation
• The Accountability Act (April 2006)

Standards (TBS)
• Integrated Risk Management Framework (April 2001)

Policy (TBS)
• Risk Management Policy (October 2001)

Documents Specific to the Department
• Corporate Risk Profile (June 2009)
• Corporate Risk Profile (November 2008)
• Corporate Risk Profile (November 2007)
• Integrated Business Plan (2009-2010)
• Business Planning Input – Operating Environment and Risk Analysis (May 2009 – one document per Branch)

Other Documents
• Management Accountability Framework (2008-2009)
• OCG Core Management Controls: A Guide for Internal Auditors (OCG) (November 2007)