Report 3: June 2011

THE STATUS OF ENTERPRISE RISK MANAGEMENT IN THE GOVERNMENT MINISTRIES OF BRITISH COLUMBIA

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Reproducing:

The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Dear Sir:

As mandated under Section 11 of the Auditor General Act, I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia my 2011/2012 Report 3: *The Status of Enterprise Risk Management in the Government Ministries of British Columbia.*

This audit is a compendium of three reports that examined risk management and enterprise-wide risk management in government ministries. Each report looked at risk management from a different level: central government, ministry and program. This audit found that government has made insufficient progress in integrating enterprise risk management into its practices despite the official adoption of a risk-based approach nearly a decade ago.

I look forward to receiving updates on government's progress in implementing the recommendations.

John Doyle, MAcc, CA
Auditor General

Victoria, British Columbia
June 2011

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Auditor General

Effective risk management is integral to the success of any enterprise. Awareness of potential risks and subsequent proactive planning can mitigate risks, and contribute to efficient and effective programs. Conversely, poor risk management can result in economic loss, loss of life and missed opportunities. Key strategic and operational goals may also be jeopardized.

Given the significant size and scope of its operations, government cannot make fully informed decisions without being aware of the numerous risks that are faced within the Province. Risk management and enterprise risk management provide a systematic and proactive approach to dealing with risks. However, as this audit found, government has made insufficient progress in integrating enterprise risk management into its practices despite the official adoption of a risk-based approach in April 2002 – nearly a decade ago. This compendium report is comprised of three separate reports that examine risk management and enterprise risk management in government ministries from different levels.

The first report, aimed at central government, provides an overall summary of our audit of the management of risks by ministries in the B.C. government. With many ministries not complying adequately with government's risk management policy, we concluded that risk management is not integrated into ministry practices.

The second report focuses on the detailed findings of the audit; including ERM maturity ratings, the use of the ERM model in ministries and the barriers to integrating enterprise risk management at the ministry level.

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In the third report, we examine the program area level, having audited the risk management practices of three very different programs. Despite the varying approaches to risk management, all three programs met or partially met government's requirements for risk management at the program level.

The respective ministry has provided a short response for each of these three audits while the Ministry of Finance provided an overall response for this compendium. As per the latter response, I am pleased that the Ministry of Finance accepts the importance of risk management in helping government achieve its goals and governance responsibilities and is committed to developing an appropriate accountability mechanism to ensure that ministries are held accountable for ERM. I look forward to receiving updates on government's plans for implementation of these recommendations. I would like to thank everyone involved for the cooperation and assistance they provided to my staff during these audits.

John Doyle, MAcc, CA
Auditor General
June 2011

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SUMMARY OF RECOMMENDATIONS

WE RECOMMEND THAT GOVERNMENT DEVELOP AN APPROPRIATE ACCOUNTABILITY MECHANISM TO ENSURE MINISTRIES ARE HELD ACCOUNTABLE FOR ENTERPRISE RISK MANAGEMENT. THIS SHOULD INCLUDE:

1 regular assessments of ERM maturity for every ministry;

2 ERM targets within Deputy Minister accountability letters;

3 annual reporting of ministry-level risk registers; and

4 regular reporting of ministry ERM performance to the Deputy Ministers' Council.

WE RECOMMEND THAT THE RISK MANAGEMENT BRANCH:

5 report to the Deputy Ministers' Council on ministries' progress towards full implementation of ERM.

6 create and maintain an overall risk register for all ministries in the Province of B.C. based on annual ministry-level risk registers.

WE RECOMMEND THAT MINISTRIES:

7 maintain up to date ministry-level risk registers that clearly assess the likelihood and consequences of identified risks.

8 utilize the Risk Management Branch's approved ERM process, tools, training and guidance, or consult with the Risk Management Branch to modify the tools if needed.

9 appoint an ERM coordinator to assist with risk management and the maintenance of ministry-wide risk registers.

10 require their program areas to maintain a risk management process that includes a risk register, as appropriate, which can be rolled up to a ministry-wide risk register.

GOVERNMENT WOULD LIKE to thank the Auditor General for his report on The Status of Enterprise Risk Management in the Government Ministries of British Columbia. Government agrees that Risk Management and Enterprise Risk Management (ERM) have an important role in helping government achieve its goals and governance responsibilities.

While recognizing that implementation to date, on a cross government basis, has not been consistent, ERM has been very successfully used on major projects within government, including all Public/Private Partnership initiatives. Additionally, the cross government risk analysis work and risk registers produced for Pandemic Planning and the 2010 Olympics identified many interrelated risks and provided mitigation strategies that supported the successful completion of these projects.

The ERM tools provided by Risk Management Branch have evolved over time, including the recent adoption of the new CS A/ISO 31000 Risk Management Standard and the completely^ revised Guidelines that were published in 2011. Additionally, the Branch has provided training on a cross government and ministry specific basis.

While Risk Management and ERM are being actively practiced within government, the Auditor General's report affirms merit for considering further measures to support ongoing improvements.

Government is committed to developing an appropriate accountability mechanism to ensure that ministries are held accountable for ERM and will take these important recommendations into consideration.

Peter Milburn,
Deputy Minister

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"ENTERPRISE RISK MANAGEMENT IN THE GOVERNMENT MINISTRIES OF BRITISH COLUMBIA: OVERALL AUDIT SUMMARY"

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THIS REPORT (3A) PROVIDES an overall summary of our audit of the management of risks by ministries in the B.C. government and includes recommendations directed to central government.

For more detailed information about our findings, see the two other reports in this compendium, Report 3b: "Enterprise Risk Management: A Stalled Implementation", focused at the ministry level, and Report 3c: "Risk Management in Practice: Managing Risk in Three Very Different Ministry Programs", focused at the program area level.

BACKGROUND

Risks are different for every ministry and at every level (program, division, ministry, government-wide). Risks can be financial, reputational, operational, legal, and/or technological in nature, just to name a few (see Exhibit 3a.1). For example, fraud would be considered a financial risk and operational risks could include staff resourcing challenges due to financial constraints or changing demographic trends. Furthermore, technological risks, among many, include ensuring that systems are operational after a major natural disaster.

As described in our publication *Guide to the Principles of Good Public Sector Governance* (December 2008), managing risk is at the heart of governing large, complex organizations. How well risks are anticipated and mitigated is a determining factor in the success of any organization.

The Importance of Risk Management and Enterprise Risk Management

Risk is a reality that every organization faces to varying degrees as economic, political and social circumstances shift.

Well-managed risk can create opportunities. Government, for example, may decide to invest in infrastructure to create employment and improve services based on knowledge that the associated opportunities in the long term outweigh the risk of the initial investment and ongoing operational costs.

Poorly managed risk, on the other hand, can lead to unintended, destabilizing consequences such as economic loss, loss of reputation, and even the loss of life. There can also be missed opportunities such as system improvements, collaboration and communication with stakeholders, and improvements in the efficiency and effectiveness of programs. When risk in government is poorly managed, the accomplishment of key strategic and operational goals may also be jeopardized and public service delivery interrupted.

Given the size and scope of government operations, a systematic approach to the management of risk is critical. Risk management and enterprise risk management (ERM) provide this much needed approach. They offer frameworks that promote evidence-based decision-making in the immediate, intermediate and long term, thereby helping government protect its assets and reputation. Exhibit 3a.1 illustrates the ERM process using B.C. ministry examples under each heading. The processes of risk management to identify, analyze, evaluate and treat risks are documented by the organization in what is referred to as a risk register.

Defining Risk Management and Enterprise Risk Management

- *Risk:* the chance of damage, loss, liability or a similar negative outcome occurring.

- *Risk management:* a process in which management and staff are given the skills to identify risks, evaluate their likelihood and impact, and prepare for, treat and monitor them, all in a cost-effective manner.

- *Enterprise risk management (typically referred to as ERM):* a strategic business discipline that, to support an organization in achieving its objectives, considers the full range of the organization's risks and then manages the combined impact of those risks.

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Exhibit 3a.1 - B.C. Risk Management Process Model, adapted from AS/NZS 4360:2004

1. COMMUNICATE & CONSULT
Determine roles and responsibilities including stakeholders

2. ESTABLISH CONTEXT

Typical Context:
 Strategic Plan
 Service Plan
 Major Project
 P3
 ASD
 Business Plan
 Policy
 Program
 Emergency/Disaster

3. IDENTIFY RISKS

Typical Risk Categories:
 Financial
 Legal
 Reputation
 Stakeholder
 Approval
 Implementation
 Operation
 Construction
 Market

4. ANALYZE RISKS

Likelihood
Consequence

5. EVALUATE RISKS

Adequacy of Risk
Tolerance Action

6. TREAT RISKS

Typical Treatments:
 Strategic shift
 Administrative action
 Communications plan
 Budget allocation review

Special Treatments:
 Strategic shift
 Administrative action
 Communications plan
 Budget allocation review

7. MONITOR AND REVIEW
Capture risk information, follow-up on treatments, report

A preventive versus reactive approach also involves a higher level of stability, which enables government to manage its policies, plans and programs more effectively and efficiently. When a systematic approach to risk management is implemented, government can potentially prevent or minimize costly consequences of risks through planned risk mitigation strategies because they are in a better position to predict and prepare for possible consequences.

While there are costs associated with implementing and maintaining a robust ERM process, the benefits far outweigh these costs, the latter of which are minimized when ERM is embedded in management processes. Therefore, ERM is a good investment.

History of Enterprise Risk Management in British Columbia

B.C.'s focus on ERM began in 2001 when the Ministry of Finance adopted a risk-based approach to management in response to the government's new policy direction of economic, social and institutional revitalization. The ministry's Risk Management Branch and Government Security Office (Risk Management Branch) was given responsibility for developing ERM programs designed to minimize the risks within government's programs, operations and assets.

The ERM program officially began in April 2002 when it was included in Chapter 14, "Risk Management" of the Treasury Board's *Core Policy and Procedures Manual* (CPPM). Ministries were expected to adopt an ERM framework that would guide their strategic and operational decision-making and help them manage potential opportunities and adverse effects. The Risk Management Branch also delivered ERM training to ministry decision-makers.

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DETAILED REPORT

Role of the Risk Management Branch

The Risk Management Branch is accountable for effective risk management in government and engages in four different functions specific to ERM to achieve its mandate. It:

- acts as a central agency within government;

- acts as an advisor/consultant;

- provides program development and delivery; and

- provides claims and litigation management.

In its role as ERM advisor/consultant, the Risk Management Branch provides ministries and other public sector organizations with a range of services, including the development of an ERM program. Although there are a variety of models and guides on ERM, the branch adopted, in 2002, the Australia–New Zealand model (specifically, AS/NZS 4360:2004) as the standard and framework for its ERM program. At the time of this audit, that was the ERM model in effect. While that model was effective, the branch adopted a new model in February 2011, an international standard (ISO 31000) developed by the International Organization for Standardization. The new CSA/ISO 31000 Risk Management Standard replaced the previous ERM guidelines with refined yet recognizable guidance.

In addition to providing guidelines to assist their clients, the Risk Management Branch provides a variety of additional tools and training to support ERM development and implementation. The tools, accessible from the branch's website, include an implementation guide, sample risk register, risk dictionary, risk maturity model and risk maturity self-assessment. ERM training forums, available on a cross-government basis, have been done annually since 2009. In addition, training and facilitation services are provided to any ministry that requests it.

AUDIT OBJECTIVES AND SCOPE

Our audit had three objectives in assessing risk management and ERM within our audit scope of B.C. ministries:

Prevalence of ERM in ministries	We audited all ministries to determine the extent to which each ministry has integrated ERM into practice.
Relevance of ERM model in ministries	We audited all ministries to determine whether the ERM model and tools meet the needs of ministries in managing risk at the ministry level.
Completeness of ERM model in ministries	We audited the risk management processes in a sample of three existing program areas, and looked at how well the key risks from those programs have been incorporated into each ministry's ERM approach.

The three objectives are discussed within this compendium as follows:

- The results from objectives one and two are discussed in detail in report 3b "Enterprise Risk Management: A Stalled Implementation" and are focused at the ministry level.

- The results from objective three are discussed in detail in 3c "Risk Management in Practice: Managing Risk in Three Very Different Ministry Programs") and are focused at the program area level.

The criteria developed for this audit were based primarily on the risk management and ERM processes endorsed by the Ministry of Finance's Risk Management Branch.

What we did

We carried out our audit from May to November, 2010. Subsequently, further discussions, analysis and assessments were conducted prior to completing the three reports. We conducted the audit in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. The audit results are reported in accordance with section 11 of the *Auditor General Act*.

In the spring of 2010, as part of objectives one and two, we required all 20 ministries in B.C. to complete a survey to self-assess their current status in implementing ERM processes using the ERM

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maturity model supported by the Risk Management Branch. As well, we asked additional survey questions to assist us in determining whether the ERM model and tools supported by the Risk Management Branch meet the needs of ministries in managing risk at the ministry level. We attained audit level assurance as to the ministries' self-assessments through document validation and interviews with ministry representatives.

The ERM maturity model that ministries used to evaluate themselves is an assessment tool consisting of 22 questions. Organizations can use it to compare their current practices against five different levels of ERM maturity. Our expectation was that an organization committed to ERM would continuously develop and refine its risk management practices with the goal of steadily embedding good ERM practices throughout its organization and thereby reaching an advanced level of ERM maturity.

As part of objective three, to audit the risk management practices of three specific program areas, we looked at: the Gaming Policy and Enforcement Branch, now within the Ministry of Public Safety and Solicitor General; Maples Adolescent Treatment Centre in the Ministry of Children and Family Development; and Southern Interior Engineering in the Ministry of Transportation and Infrastructure. We assessed the practices of the program areas against the Risk Management Branch ERM model and looked at how the key risks from those programs have been incorporated into their ministry's ERM approach.

Communication with Ministries

As shown in Report 3b, our findings at the ministry level identified existing good practices and lessons learned that we provided in individual summarized reports to every Deputy Minister. The reports were well received by the ministries. We were informed that the Risk Management Branch received an increase in service requests shortly after the summary reports were distributed.

As shown in Report 3c, the issues identified at the program area level through our audit have been discussed with the three respective ministries and reported to the Deputy Ministers through management letters.

OVERALL CONCLUSION

Since ERM was introduced to ministries in 2002, only moderate progress has been made in integrating it into practice. This leaves ministries vulnerable to risks and potentially unaware of opportunities. With many ministries not complying adequately with government's risk management policy, we concluded that ERM is not integrated into ministry practices. The Risk Management Branch ERM model and tools are meeting the needs of some ministries in managing risk at the ministry level. Conversely, other ministries are adjusting the ERM model and tools to better suit their needs. Additionally, some ministries are not using any ERM models or tools.
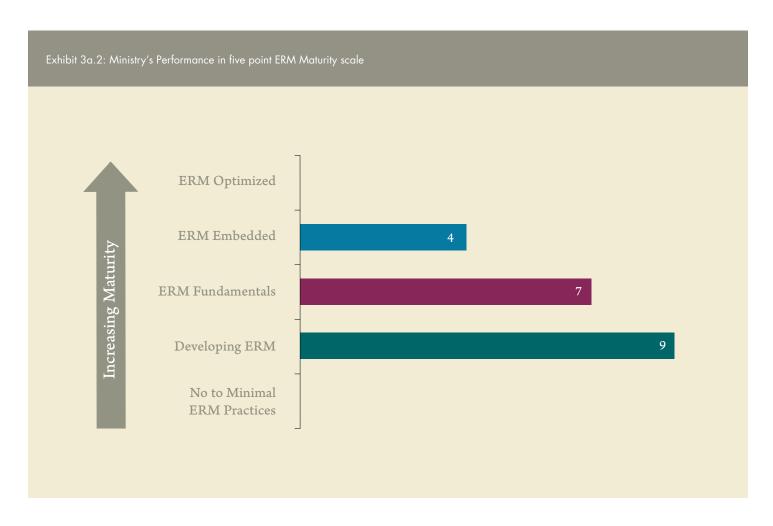
At the program-level, specifically in the three program areas that we examined, we reached a more favourable conclusion. Despite their varying approaches to ERM, all three programs met government's requirements for program-level risk management.

KEY FINDINGS FOR OBJECTIVES ONE AND TWO

Regarding objective one, which looked at the prevalence of ERM in ministries, we found that ministries have made only moderate progress in integrating ERM into practice. Nearly a decade since ERM's introduction as a government policy, most ministries are still working to put the fundamentals in place and very few have embedded ERM into their operations. As demonstrated in exhibit 3a.2, a substantial number of the 20 ministries are still at the stage of building their ERM capabilities in the required areas of assessing, monitoring, communicating and evaluating risk, although the majority of the ministries reported they have developed and implemented an ERM plan, which is the initial stage in developing a comprehensive ERM program.

Regarding objective two, which looked at relevance to ministries of the ERM model, some ministries indicated that they are using processes and tools different from those suggested by the Risk Management Branch, but which better suit their needs.

As part of the self-assessment survey, we asked ministries what their barriers are to successfully implementing ERM. The two top ranked barriers were lack of human resources and lack of funding. The third was leadership.

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Exhibit 3a.2: Ministry's Performance in five point ERM Maturity scale

Increasing Maturity →

ERM Optimized	
ERM Embedded	4
ERM Fundamentals	7
Developing ERM	9
No to Minimal ERM Practices	

KEY FINDINGS FOR OBJECTIVE THREE

Good practices at the program-level

Our audit of the three program areas found that all have good practices for managing risks despite their varying approaches. Further improvements can be made by ensuring there is a formally documented and fully functioning process to roll up risks from the program-level to the ministry level. The detailed findings for the three program areas are available in Report 3c: "Risk Management in Practice: Managing Risk in Three Very Different Ministry Programs". The following is a summary of our key findings for the program areas:

Gaming Policy and Enforcement Branch, Ministry of Public Safety and Solicitor General

Integrity issues such as illegal gaming are among the key risks faced by this area. The model for managing risk used by the Gaming Policy and Enforcement Branch is comprehensive and branch management feels it enhances service delivery. A plan and process for assessing the effectiveness of the branch's risk management strategy and its associated costs and benefits is being implemented.

Maples Adolescent Treatment Centre, Ministry of Children and Family Development

The Maples Adolescent Treatment Centre has a system for managing risks which includes identifying, assessing and mitigating its client-level risks such as violence towards self, others and property. Program-level risks are managed on an ad hoc basis as they are identified. The system's effectiveness for client-level and program-level risks has been partially assessed by the program area; however, the ministry has not yet implemented the framework that would allow the risks to be rolled up to the ministry level.

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Southern Interior Region Engineering, Ministry of Transportation and Infrastructure

One of the key risks in this area is safety. Southern Interior Region Engineering has processes in place for managing risks to engineering projects and contracts, which are implemented and evaluated for effectiveness. Organization-level risks were identified and assessed for likelihood and consequence in 2007–2008; however, the risk register has yet to be updated. An action plan with mitigation strategies was developed for two of Southern Interior Region Engineering's top five risks. The roll up of the program-level risks to the ministry level occurs through verbal communication rather than being documented.

What it means

Government's ERM approach has not been well implemented in ministries. This increases the province's vulnerability to risks and leaves it potentially unaware of opportunities. Without adequate acceptance and use of the standardized process and tools provided by the Risk Management Branch and given the gap in the development and maintenance of ministry level risk registers, a government-wide risk register has not been developed and would be difficult to create.

To implement ERM meaningfully and adequately in an organization as large and complex as the provincial government, the importance of ERM as an essential government-wide management tool needs to be re-emphasized and enforced by government. A government-wide risk register could be useful to government, as well as ministries, in managing risks. Government should develop an appropriate accountability mechanism to ensure ministries are held accountable for ERM.

Currently, the Risk Management Branch acts as an advisor/consultant for ministries, but is not in a position to hold them accountable for establishing a fully functioning ERM process. Rather, ministries are accountable to Treasury Board under Chapter 14 of the CPPM. Given the clear lack of ERM maturity across ministries nearly a decade after implementation began, government will want to ensure regular monitoring and reporting on the progress of ministries' ERM implementation in order to achieve the benefits that ERM offers.

RECOMMENDATIONS

WE RECOMMEND THAT GOVERNMENT DEVELOP AN APPROPRIATE ACCOUNTABILITY MECHANISM TO ENSURE MINISTRIES ARE HELD ACCOUNTABLE FOR ERM. THIS SHOULD INCLUDE:

1. regular assessments of ERM maturity for every ministry;

2. ERM targets within Deputy Minister accountability letters;

3. annual reporting of ministry-level risk registers; and

4. regular reporting of ministry ERM performance to the Deputy Ministers' Council.

WE RECOMMEND THAT THE RISK MANAGEMENT BRANCH:

5. report to the Deputy Ministers' Council on ministries' progress towards full implementation of ERM.

6. create and maintain an overall risk register for all ministries in the Province of B.C. based on annual ministry-level risk registers.

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LOOKING AHEAD

As part of our risk management audit, we issued individual summary reports of our findings to each ministry, as well as detailed management letters with recommendations to the three ministries responsible for the programs we audited. We also sent a management letter that included recommendations for the Risk Management Branch to the Deputy Minister of Finance. As a result of providing such significant feedback to each entity, we asked government and the three ministries to which we issued management letters to provide us with responses to our recommendations. We will follow up in approximately one year on each entity's progress in implementing our recommendations.

We expect that the momentum generated by this work will be sustained. We will periodically review progress and conduct further examinations in the general areas of risk management and ERM. We will also continue to conduct work in specific risk areas such as strategic planning, alternative service delivery, public-private partnerships, information technology and financial management. Over time, we will gain a comprehensive view of government's response to the many risks it faces.

Our website also contains recent examples of audit work performed by our Office in areas of risk management including the compendium report entitled *Aspects of Financial Management* (particularly *Managing Fraud Risks in Government* and *Infrastructure Grants*) and the *IT Continuity Planning in Government* report. As is standard practice in our Office, we will follow-up with these entities in our semi-annual follow-up reports as to their progress in implementing the recommendations made in these reports.

"ENTERPRISE RISK MANAGEMENT: A STALLED IMPLEMENTATION"

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THIS REPORT (3B) FOCUSES on the barriers to integrating enterprise risk management (ERM) into ministries and includes recommendations directed to ministries.

For an overview of risk management and ERM in ministries, see the first report in this compendium, Report 3a "Enterprise Risk Management in the Government Ministries of British Columbia: Overall Audit Summary". Additionally, examples of how three ministry programs are managing risks is available in Report 3c: "Risk Management in Practice: Managing Risk in Three Very Different Ministry Programs". This report is focused at the program area level.

BACKGROUND

Risks are different for every ministry and at every level (program, division, ministry, government-wide). Risks can be financial, reputational, operational, legal, and/or technological in nature, just to name a few. For example, fraud would be considered a financial risk and operational risks could include staff resourcing challenges due to financial constraints or changing demographic trends. Furthermore, technological risks, among many, include ensuring that systems are operational after a major natural disaster.

As described in our publication *Guide to the Principles of Good Public Sector Governance* (December 2008), managing risk is at the heart of governing large, complex organizations. How well risks are anticipated and mitigated is a determining factor in the success of any organization.

The Importance of Risk Management and Enterprise Risk Management

Risk is a reality that every organization faces to varying degrees as economic, political and social circumstances shift constantly.

Well-managed risk can create opportunities. Government, for example, may decide to invest in infrastructure to create employment and improve services based on knowledge that the associated opportunities in the long term outweigh the risk of the initial investment and ongoing operational costs.

Poorly managed risk, on the other hand, can lead to unintended, destabilizing consequences such as economic loss, loss of reputation, and even the loss of life. There can also be missed opportunities such as system improvements, collaboration and communication with stakeholders, and improvements in the efficiency and effectiveness of programs. When risk in government is poorly managed, the accomplishment of key strategic and operational goals may also be jeopardized and public service delivery interrupted.

Given the size and scope of government operations, a systematic approach to the management of risk is critical. A preventive versus reactive approach results in greater stability, which enables government to manage its policies, plans and programs more effectively and efficiently.

History of Enterprise Risk Management in B.C.

The ERM program officially began in April 2002 when it was included in Chapter 14, "Risk Management" of the Treasury Board's *Core Policy and Procedures Manual* (CPPM). Ministries were expected to adopt an ERM framework that would guide their strategic and operational decision-making and help them manage potential opportunities and adverse effects.

Ministry ERM Responsibilities

Chapter 14 of the CPPM states that each ministry is accountable to Treasury Board for developing, implementing and maintaining an ERM process. This includes systematically applying management policies, procedures and practices to identify, analyze, evaluate, and treat risks. The process is typically documented by the organization in what is referred to as a risk register. To help achieve their ERM responsibilities, ministries are encouraged to access guidance and resources from the Risk Management Branch.

Role of the Risk Management Branch

In 2001, the Risk Management Branch within the Ministry of Finance was given responsibility to develop ERM programs designed to minimize the risks within government programs, operations and assets. In its role as ERM advisor/consultant, the Risk Management Branch provides ministries and other public sector organizations with a range of services and tools, including the development of an ERM program. The tools, accessible from the branch's website, include an implementation guide, sample risk register, risk dictionary, risk maturity model and risk maturity self-assessment.

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AUDIT OBJECTIVES AND SCOPE

To reach a conclusion regarding the first two objectives in this audit, we audited all ministries in the B.C. government. The first objective focused on the prevalence of ERM in ministries and we determined the extent to which each ministry has integrated ERM into practice. The second objective focused on the relevance of the Risk Management Branch's risk management model. Specifically, we determined whether the ERM model and tools meet the needs of ministries in managing risk at the ministry level.

We carried out our audit from May to November, 2010. Subsequently, further discussions, analysis and assessments were conducted prior to completing the three reports. We conducted the audit in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. The audit results are reported in accordance with section 11 of the *Auditor General Act*.

In the spring of 2010, as part of objectives one and two of this audit, we required all 20 ministries in B.C. to complete a survey to self-assess their current status in implementing ERM processes. As well, we asked additional questions to assist us in determining whether the ERM model and tools supported by the Risk Management Branch meet the needs of ministries in managing risk. We attained audit level assurance as to the ministries' self-assessments through document validation and interviews with ministry representatives.

AUDIT CONCLUSION

Since B.C. introduced ERM to ministries in 2002, only moderate progress has been made in integrating it into practice. This leaves ministries vulnerable to risks and potentially unaware of opportunities. With many ministries not complying adequately with government's risk management policy, we concluded that ERM is not integrated into ministry practices. The Risk Management Branch ERM model and tools are meeting the needs of some ministries in managing risk at the ministry level. Conversely, other ministries are adjusting the ERM model and tools to better suit their needs. Additionally, some ministries are not using any ERM models or tools.

KEY FINDINGS

Main Barriers to Implementation

According to the ministry self-assessment surveys, the two highest ranked barriers to successful ERM implementation were lack of human resources and lack of funding. Leadership was ranked as the third main barrier (see Exhibit 3b.1). All three barriers may be attributable to the level of prioritization given to risk management and ERM activities.

Exhibit 3b.1: Top barriers to enterprise risk management implementation as reported by the 20 ministries surveyed.

	Barriers	No. of ministries
1	Lack of human resources	15
2	Lack of funding	14
3	Leadership	8
4	Unawareness	3
5	Lack of data	3
6	Lack of training/knowledge	2

Comments collected on the self-assessment surveys may further explain the barriers to implementing ERM. One ministry said that the process: is not intuitive – staff training in its use is required; does not lend itself to dealing with specific items; and is too prescriptive. Another ministry stated that, given the resources needed to implement the process, ERM is not a priority. Another ministry wrote that the slowdown in its ERM-specific activities was due partially to limited human resources and funding but mostly to the organization not having time to evaluate ERM benefits and how extensively it is being used in the ministry.

The identified barriers and comments provide insights into the overall ERM maturity results across ministries. The top barriers, lack of human resources and lack of funding, are ones that can be overcome through prioritization. If ERM is recognized for its value as an effective governance tool, then sufficient resources can be applied. Furthermore, it is important to realize that implementing and maintaining an ERM process does not require extensive resourcing and funding when the initiative is centrally coordinated (see sidebar).

The third greatest barrier identified in the self-assessment survey, leadership, is one that can be overcome through re-emphasis by

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government of the importance of coordinating ERM in a large and complex organization. Seeing ERM as a valuable management tool should increase the priority it receives. However, besides the 2010 Olympic Games and Pandemic Risk Register instance (described in the sidebar), no other cases where government has used its ERM process to consolidate the significant risks to a whole-government level were identified.

A case of successful centralized risk management in B.C.

An example of the success of a centralized approach is the combining of the 2010 Olympic Games Risk Register and Pandemic Risk Register. Relevant ministry risks were consolidated to identify those with the greatest likelihood of occurring and greatest impacts. These merged risks were used to develop targeted mitigation strategies.

Through this centrally coordinated approach, conflicting mitigation strategies – which might otherwise have been problematic – were identified and resolved.

The success of this joint approach resulted in numerous groups increasing their awareness of the benefits of ERM as well as an increase in the number of requests for ERM guidance from the Risk Management Branch.

ERM Maturity Ratings

We asked each ministry to assess itself using the ERM maturity model supported by the Risk Management Branch. The ERM maturity model is an assessment tool that consists of 22 questions which an organization may use to assess its current practices against five levels of maturity:

Level 1: No to Minimal ERM Practices in Place
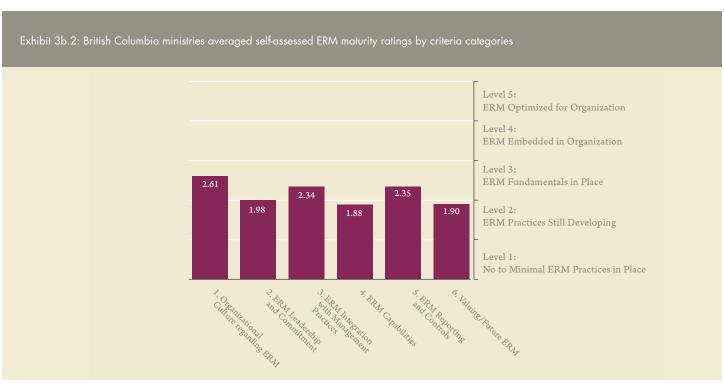Level 2: ERM Practices Still Developing
Level 3: ERM Fundamentals in Place
Level 4: ERM Embedded in Organization
Level 5: ERM Optimized for Organization

Exhibit 3b.2 shows the audited results of the self-assessment survey by the six categories of questions. From a maturity point of view, most ministries rated themselves as having integrated ERM only up to level two, with a few working toward achieving level three. Very few ministries stated that they have embedded ERM (level four) and none assessed themselves as having ERM optimized (level five). Therefore, the majority of ministries' ERM practices are still developing or they are working towards having the fundamentals in place.

Treasury Board established its expectation of ministries with regard to ERM in Chapter 14 of the CPPM. At a minimum, these expectations require that ERM fundamentals be in place. Not all ministries are in compliance with these core policy requirements. Given that

Exhibit 3b.2: British Columbia ministries averaged self-assessed ERM maturity ratings by criteria categories

Level 5:
ERM Optimized for Organization

Level 4:
ERM Embedded in Organization

Level 3:
ERM Fundamentals in Place

Level 2:
ERM Practices Still Developing

Level 1:
No to Minimal ERM Practices in Place

Category	Value
1. Organizational Culture regarding ERM	2.61
2. ERM Leadership and Commitment	1.98
3. ERM Integration with Management Practices	2.34
4. ERM Capabilities	1.88
5. ERM Reporting and Controls	2.35
6. Valuing/Future ERM	1.90

implementation of ERM in B.C. ministries was initiated in 2002, ministry progress in ERM is not as far along as one would reasonably expect it to be.

The 22 self-assessment survey questions were grouped by six categories:
1. Organizational Culture regarding ERM
2. ERM Leadership and Commitment
3. ERM Integration with Management Practices
4. ERM Capabilities
5. ERM Reporting and Controls
6. Valuing ERM /Future ERM

When exhibit 3b.2 is viewed with an eye to the six categories of self-assessment survey questions, the ministries are working towards having the fundamentals in place in three of the six categories: (1) achieving an organizational culture that is supportive of ERM activities, (3) integrating ERM with existing management practices and (5) having processes in place for reporting on ERM activities and on controls. Ministries would benefit from improving the other three areas where their ERM practices are still developing.

For each of the six categories, we summarize the desired good practices and the specific areas where improvements are needed if ERM is to be optimized across ministries.

1. Organizational Culture

Good practices:
An optimized organizational culture for ERM is one in which people are proactively encouraged for their contributions to risk management, and risk management is practised regularly at every level of the organization. When this is achieved, an organization is more likely to identify and mitigate or manage risks.

Areas for improvement:
Ministries scored higher in the criteria of organizational culture than for the other five criteria. The majority of ministries are at level 3 (having the fundamentals in place), and many are at level 4 (having embedded ERM principles into practice).

Still, to increase their risk management maturity in this area, ministries would have to: boost consultation on risk management initiatives; integrate risk management with ministry management practices; and ensure that staff see themselves as risk managers.

2. ERM Leadership and Commitment

Good practices:
Optimized ERM leadership and commitment are achieved when the leadership for ERM is embedded at all levels of the organization, an operational risk policy is in place, and senior management have assumed a leadership role for implementing ERM.

Areas for improvement:
This is a main area of weakness for all ministries. The majority are only at level 3 (having fundamentals in place).

To increase their maturity in the area of ERM leadership and commitment, senior management in ministries would have to start ensuring that: strategic and operational risks are addressed in an integrated manner; risk policy and management frameworks clearly state the levels of risk acceptable to the organization; and responsibilities for ERM are well understood by managers.

3. ERM Integration with Management Practices

Good practices:
Optimized integration of ERM with management practices in an organization is achieved by: using financial and non-financial information to assess risks; putting risk measures in place and monitoring them over time; providing online access to management information and tools; making internal best practices readily and easily shared; and working to gain stakeholders' respect for the organization's risk management practices.

Areas for improvement:
The majority of ministries are only at level 3 (having fundamentals in place) in the area of integrating ERM with management practices overall.

To increase their ERM maturity in the area of integration with other management practices, ministries would have to: ensure that strategic and operational risk measures are readily available; improve the management information available for risk assessment and monitoring; enhance internal communication and feedback on risks by using a wide range of mediums; and ensure that stakeholder communication is regular and transparent.

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4. ERM Capabilities	
Good practices:	*Areas for improvement:*
Optimizing its risk management capabilities requires an organization to commit to continually renewing ERM competencies among staff, working to integrate ERM tools throughout the organization, and maintaining good access to ERM specialists.	This is another key area of weakness in all ministries, with most still at level 2 (developing practices) and only a few at level 3 (having fundamentals in place).
	To increase their risk management maturity in the area of ERM capabilities, ministries would have to: integrate ERM competency development into individual learning plans; ensure that ERM tools are consistently used and updated as required; and hire or otherwise maintain access to ERM specialists who have broad experience in the ministry.

5. ERM Reporting and Control	
Good practices:	*Areas for improvement:*
An organization in which ERM is optimized uses state-of-the-art methodologies for environmental scanning, ensures that its control environment integrates risk management, and measures and tracks its risk management performance over time.	We found substantial variation in maturity levels for this area, with ministries divided among levels 2 to 4 (developing practices, having fundamentals in place, and having embedded ERM principles into practice).
	To increase their risk management maturity in the area of ERM reporting and control, ministries would have to: regularly conduct environmental scans and share results with stakeholders; regularly assess controls for their value for money; formally document substantiation processes; and prepare action plans to improve performance.

6. Valuing ERM/Future ERM	
Good practices:	*Areas for improvement:*
An optimized organization fully understands the value of ERM and makes plans for implementing further ERM achievements.	While the majority of ministries are at level 3 (having fundamentals in place) or better for understanding the value of ERM, many are still at level 2 or even 1 (developing practices or no to minimal practices in place) in terms of making future ERM plans.
	To increase their risk management maturity in the areas of valuing ERM and developing future ERM plans, ministries would have to: ensure that staff understand that ERM is a method for making better decisions while protecting the existing value of an organization; and develop clear plans with timelines for future ERM implementation.

Use of the ERM Model by Ministries

To determine the relevance of the Risk Management Branch's ERM model in ministries, we used the same self-assessment survey to solicit responses from all ministries on 14 additional questions under the following criteria:

1. The B.C. ERM process established through the Risk Management Branch is in use;
2. The B.C. ERM tools are in use; and
3. Chapter 14, "Risk Management" of the *Core Policy and Procedures Manual* is relevant in ministries.

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The results by criteria show that the ERM process and tools have been implemented by some ministries, others are adapting the ERM process and tools to better suit their needs, and some have not implemented the ERM process and are not using any tools. As indicated in the ERM maturity level assessment, only some ministries are in compliance with government's ERM policy. The main findings from the self-assessment survey about the ERM model's use are summarized in the sidebar.

Ministry Use of the ERM Model: Summary of Findings

Use of Risk Management Branch's ERM process

The majority of ministries (70%) use the ERM model, but over half (55%) also use, or partially use, other methods that better fit their needs. As well, the majority of ministries (70%) indicated that improvements to the model (AS/NZS) are needed.

Use of Risk Management Branch's ERM tools

All ministries use, or partially use, the Risk Management Branch guidelines, but 20% do not use the risk register model and 25% indicated they do not use the risk dictionary or the implementation guide. These key tools are available on the branch's website.

Relevance of Chapter 14, "Risk Management" of the Core Policy and Procedures Manual

The *Core Policy and Procedures Manual* states that each ministry is responsible and accountable to Treasury Board for developing, implementing and maintaining an ERM process. While the majority of ministries (70%) reported they had developed and implemented an ERM management plan, a substantial number are still developing their ERM capabilities in the areas of assessing (20%), monitoring (30%), communicating (10%), evaluating (20%) and funding (30%) risk treatments. This indicates they are not in compliance with all requirements of the policy.

What it means

Government's risk management and ERM policy and procedures have not been well implemented by ministries, making ministries and the province more vulnerable to risks than necessary and potentially unaware of opportunities. Without adequate acceptance and use of the standardized process and tools provided by the Risk Management Branch, and given the gap in the development and maintenance of ministry level risk registers, a government-wide risk register has not been developed and would be difficult to create.

To implement ERM meaningfully and adequately in a ministry, risk management and ERM as essential management tools needs to be re-emphasized and integrated into the culture of the ministry. The Risk Management Branch is available to provide assistance and guidance, although it is recommended that each ministry appoint an ERM coordinator with responsibility and accountability for this area within the ministry.

Currently, the Risk Management Branch acts as an advisor/consultant for ministries, but is not in a position to hold them accountable for establishing a fully functioning ERM process. Rather, ministries are accountable to Treasury Board under Chapter 14 of the CPPM, which includes the development and maintenance of a risk register. Given the clear lack of ERM maturity across ministries nearly a decade after implementation began, Treasury Board will want to ensure regular monitoring and reporting on the progress of ministries' ERM implementation in order to achieve the benefits that ERM offers. Deputy Ministers of each ministry need to be held to account by Treasury Board to comply with Chapter 14 of the CPPM.

RECOMMENDATIONS

RECOMMENDATION 7: *We recommend that ministries maintain up to date ministry level risk registers that clearly assess the likelihood and consequences of identified risks.*

RECOMMENDATION 8: *We recommend that ministries utilize the Risk Management Branch's approved ERM process, tools, training and guidance, or consult with the Risk Management Branch to modify the tools if needed.*

RECOMMENDATION 9: *We recommend that each ministry appoint an ERM coordinator to assist with risk management and the maintenance of ministry-wide risk registers.*

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LOOKING AHEAD

As part of our risk management audit, we issued individual summary reports of our findings to each ministry. We will periodically review progress in this area and plan to conduct further examinations in the areas of risk management and ERM. For additional information on associated work performed by our Office in areas of risk management see Report 3a "Enterprise Risk Management in the Government Ministries of British Columbia: Overall Audit Summary".

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"RISK MANAGEMENT IN PRACTICE: MANAGING RISK IN THREE VERY DIFFERENT MINISTRY PROGRAMS"

TABLE OF CONTENTS

THIS REPORT (3C) PRESENTS our findings of how, in three very different ministry program areas, risks are managed and incorporated into a ministry enterprise risk management (ERM) strategy.

For an overview of risk management and ERM in ministries, see the first report in this compendium, Report 3a: "Enterprise Risk Management in the Government Ministries of British Columbia: Overall Audit Summary". Additionally, for an overview of the barriers to integrating enterprise risk management into ministries and our recommendations to overcome them see Report 3b: "Enterprise Risk Management: A Stalled Implementation", focused at the ministry level.

BACKGROUND

Based on recommendations from the Ministry of Finance's Risk Management Branch, we spoke with a number of ministries and asked them to nominate program areas that face high risks but have good risk management processes in place.

The programs we selected were:

- Gaming Policy and Enforcement Branch, now in the Ministry of Public Safety and Solicitor General;

- Maples Adolescent Treatment Centre in the Ministry of Children and Family Development; and,

- Southern Interior Region Engineering in the Ministry of Transportation and Infrastructure.

The risks these three programs face are very different from each other, and the approaches each ministry uses to manage those risks are also very different.

AUDIT OBJECTIVES AND SCOPE

We carried out our audit from May to November, 2010. Subsequently, further discussions, analysis and assessments were conducted prior to completing the three reports. We conducted the audit in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. The audit results are reported in accordance with section 11 of the *Auditor General Act*.

Our objective in evaluating the risk management processes in these three program areas was to show real examples of how risks can be managed well and of how the key risks in the sample programs have been incorporated into their respective ministry's ERM strategy.

For each of the three program areas identified, we assessed the risk management practices against the risk management and ERM model endorsed by the Risk Management Branch. The Branch's model requires that risks be identified and assessed for likelihood of occurrence and potential consequences, typically in a document called a risk register. Once that is done, mitigation strategies are to be developed that match the level of likelihood and consequence of each risk, and responsibility for each strategy is to be assigned to specific individuals within the organization.

The risk register should be updated regularly to ensure that any changes in the external or internal risk environment are considered for their potential impacts on the risk management approach.

Effectiveness and efficiency of the risk management approach should also be assessed to determine whether the approach taken is providing best value for money and whether it is achieving its objectives. Finally, the program's risks should be rolled-up and merged with the ministry's risk management approach.

AUDIT CONCLUSION

Each program has good practices for managing risks, despite the different approaches each ministry has taken to addressing them. Further improvements can be made by ensuring there is a formally documented and fully functioning process to roll up risks from the program level to the ministry level. An overview of the risk management results for each program is shown in Exhibit 3a.2 in Report 3a "Enterprise Risk Management in the Government Ministries of British Columbia: Overall Audit Summary".

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KEY FINDINGS

Exhibit 3c.1 provides an overview of the results from the three programs by audit criterion. Findings are discussed in further detail below, by the three program areas.

Based on our findings, our Office provided management letters and recommendations to the three ministry program areas audited and asked that these ministries provide action plans on how they will address the recommendations.

A common finding of the three program areas audited was that program-level risk registers are not always maintained, or when maintained are not rolled up to a ministry level risk register. Our recommendation is intended for the program areas of all ministries in the B.C. government.

RECOMMENDATION

RECOMMENDATION 10: *We recommend that ministry program areas maintain a risk management process that includes a risk register, as appropriate, which can be rolled up to a ministry-wide risk register.*

Exhibit 3c.1: Risk management maturity results by three programs: "RM/ERM is complete," by criterion

What we examined against	Gaming Policy & Enforcement Branch (Ministry of Public Safety and Solicitor General)	Maples Adolescent Treatment Centre (Ministry of Children and Family Development)	Southern Interior Regional Engineering (Ministry of Transportation and Infrastructure)
Objective 3: The British Columbia RM/ERM model is complete.	Criterion met	Criterion partially met	Criterion partially met
Criterion 3.1: Ministry roles and responsibilities for risk management have been determined.	Criterion met	Criterion partially met	Criterion partially met
Criterion 3.2: A risk register has been completed and is kept current.	Criterion met	Criterion partially met	Criterion partially met
Criterion 3.3: Risks are analyzed for likelihood and consequence.	Criterion met	Criterion partially met	Criterion partially met
Criterion 3.4: Mitigation strategies are developed and assigned to specific positions within the organization.	Criterion met	Criterion partially met	Criterion partially met
Criterion 3.5: Mitigation strategies are implemented.	Criterion met	Criterion met	Criterion met
Criterion 3.6: Effectiveness of the ERM strategy is assessed.	Criterion partially met	Criterion partially met	Criterion partially met
Criterion 3.7: Program risks are linked to, or rolled up to, the ministry level ERM.	Criterion partially met	Criterion not met	Criterion partially met
Criterion 3.8: The cost of managing RM/ERM is offset by the benefits.	Criterion partially met	Criterion partially met	Criterion partially met

Legend: Criterion met | Criterion partially met | Criterion not met

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MINISTRY OF PUBLIC SAFETY AND SOLICITOR GENERAL - GAMING POLICY AND ENFORCEMENT BRANCH

Overview

Gaming has many risks, including those associated with the recent introduction of electronic gaming. Key risks include integrity issues, such as illegal gaming. The Gaming Policy and Enforcement Branch's mandate is to ensure that gaming is operated with honesty and integrity and that the interests of the public and participants are protected.

Reviews by the British Columbia Ombudsman (2007) and Deloitte (2008) identified gaps in the regulation of British Columbia's lottery gaming. The branch reported that it implemented all of the recommendations from the Ombudsman and is working on Deloitte's recommendations. One aspect of the latter's recommendations was the implementation of a coordinated formal risk management strategy for the branch and for the gaming industry as a whole.

We assessed risk management in the branch's Registration and Certification Division (one of seven divisions in the branch), which has 28 staff. The division ensures the integrity of organizations, employees and equipment involved in the province's gaming industry by registering gaming services providers and gaming workers (about 10,000 annually), and by approving and certifying gaming equipment and lottery schemes.

Branch Facts (2009/2010)

- annual budget: $21 million

- 155 staff

- key risk: integrity issues such as illegal gaming

Registration and certification is a key risk area for the branch. We therefore assessed the status of risk management for this program against our expectations for the optimization of risk management. Because the risk management approach used in the division is also the one used throughout the branch, we believe our findings can be generalized to the rest of the branch.

Risk Management Approach

The Internal Compliance and Risk Management Division in the Gaming Policy and Enforcement Branch conducted risk workshops in 2009, which resulted in the development of risk management plans for every division within the branch. Controls were documented to assist in managing each risk and as a way of identifying the need for any required additional controls.

A Control and Risk Management (CARM) committee was established in 2010 to "review the status of the control self-assessment activities, ensure that critical risks are adequately controlled and that control gaps are adequately addressed." Executive Directors of each division submit a quarterly Letter of Representation to the CARM committee attesting to the status of controls and implementation, and highlighting any controls of concern. Once a division has gone through a cycle of four quarterly Letters of Representation, the plan states that there will be quality assurance reviews to validate the representations on a three-year timeframe.

The Executive Director of the Internal Compliance and Risk Management Division is responsible for ensuring that risk management reports are filed as scheduled, and for providing consolidated reports to the CARM committee. Information provided to the CARM committee is intended to support the Assistant Deputy Minister's reporting to the ministry Executive on the branch's gaming risk management and controls.

The Gaming Policy and Enforcement Branch was moved from the Ministry of Housing and Social Development to the Ministry of Public Safety and Solicitor General in October 2010. Before the reorganization, the latter ministry had an ERM process that involved the development of a ministry-wide risk register containing the top risks from each of the branches. This risk register was updated quarterly on the basis of meetings and discussions with each of the branches. With the reorganization, it is still uncertain how the ministry ERM strategy might change or be sustained.

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Findings

Risk management in the Registration and Certification Division – and, by extension, the Gaming Policy and Enforcement Branch – is comprehensive. The risk management plans developed for the branch's seven divisions contain the necessary elements required to identify, assess, assign and mitigate key risks. The risk management plans are updated regularly and actively used as part of the branch's governance framework for risk and assurance. The branch has developed a structure and process to assess the effectiveness and efficiency of their risk management approach; however, they have not yet completed an assessment.

COMMENT FROM MINISTRY OF PUBLIC SAFETY AND SOLICITOR GENERAL

An effective risk management program promotes sound decision-making. It is a key aspect that ensures the Ministry identifies and mitigates risks that affect all facets of its business.

The Gaming Policy and Enforcement Branch's model of governance, risk and compliance provides not only an effective example of how to identify, manage and mitigate risks that can be applied to all levels of an organization, but it is also a tool to assess whether an organization has the structures and processes in place to effectively and efficiently ensure program and service delivery.

The Ministry will continue with the next phase of the GPEB plan and undertake the internal audit reviews within the established timeframe.

MINISTRY OF CHILDREN AND FAMILY DEVELOPMENT - MAPLES ADOLESCENT TREATMENT CENTRE

Overview

Maples Adolescent Treatment Centre (Maples) provides residential and non-residential services as well as after-care and community development services to troubled British Columbian youth aged 12 to 17 and their parents. The main direct-service clients are youth who have significant psychiatric and behavioural difficulties, as well as youth who faced criminal charges but have been found not criminally responsible by reason of a mental disorder, or unfit to stand trial.

Program Facts (2009/2010)
◆ annual budget: $10 million
◆ 146 staff
◆ 20 residential beds
◆ 200 youth served
◆ key risk: violence

Risk Management Approach

A key client-level risk in the Maples is client violence towards self, others and property. Examples of this risk include suicide attempts, assault, abuse and vandalism. The Maples also faces standard organization-level risks posed by internal and external conditions.

The Maples operates based on policies and procedures it developed to address client-based risks faced in the context of clinical practice.

Client-level risks at the Maples are addressed through admission procedures, psychiatric assessments, clinical meeting notes, case notes, case reviews, incident reports and progress notes written by the youth care and nursing staff. When a client enters a residential Maples program, he or she is assessed for various risk factors, including suicide, substance abuse and other physical and mental health risks. A psychiatrist's assessment is completed within 24 hours to assess

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the youth's mental health status and risk. If a high suicide risk is identified, a risk management plan is developed and monitored. All youth receiving direct services from the Maples receive a Care Plan that identifies their strengths and goals and the strategic direction for community service providers.

Incident reports regarding any aspect of individual client care or other operational activities are reviewed by supervisors for action. In addition, incident reports are collated and reviewed in aggregate to identify any areas for concern – areas that in turn might result in a review or revision of policy and procedures. Quality improvement meetings are held quarterly and examine evidence collected on the effectiveness of current policies and procedures. Every four years, the facility undergoes an accreditation process by an external accreditation body.

Findings

The Maples has clear processes for identifying, assessing, and mitigating key client-level risks but its approach to managing organization-level risks is less comprehensive. Roles and responsibilities for policies and procedures and for client-level risk management are assigned. There are processes to assess program quality and effectiveness for clients, though no direct assessment of the risk management strategy.

Organization-level risks are identified as part of the process to prepare the strategic plan and program service plan; the plans are not intended to be complete risk registers. Organization-level risks such as human resource challenges are managed in relative isolation rather than comprehensively in a risk register approach, which may be suitable for a smaller organization.

Unifying these risks in a risk register would enable the ministry to improve its tracking of risks and their mitigation, ensure there are no gaps, and facilitate evaluation over time for effectiveness and efficiency. One element of organization-level risk management, the quality assurance procedures, is regularly assessed for effectiveness.

Executive meetings provide a forum for the discussion of key program area risks. Given the lack of a current ministry ERM framework, however, the program-level risks are not currently rolled-up to the ministry level risk management process. A process is underway in the ministry to establish ERM.

COMMENT FROM MINISTRY OF CHILDREN AND FAMILY DEVELOPMENT

The Ministry of Children and Family Development thanks the Office of the Auditor General for auditing risk management and ERM in the Maples Adolescent Treatment Centre program area. We are pleased the audit assessment found that Maples has clear processes for identifying, assessing and mitigating client-level risks. Client-level risks are a program priority.

We recognize that comprehensive risk management processes at Maples have neither been fully developed nor integrated within the ministry ERM framework, which is being updated for 2011/12.

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MINISTRY OF TRANSPORTATION AND INFRASTRUCTURE - SOUTHERN INTERIOR ENGINEERING BRANCH

Overview

The Southern Interior Region Branch falls within the Highways Department of the Ministry of Transportation and Infrastructure. The region's responsibility covers five districts: Okanagan Shuswap, Thompson Nicola, Cariboo, West Kootenay and Rocky Mountain. Safety is a key risk related to highway operations, but highway design must also consider risks related to the environment, wildlife, landscape, stakeholder expectations and archaeology. At the organization level, the main risks are around human resources and budgeting.

Branch Facts (2009/2010)
◆ operating expenses: $480 million
◆ key risk: safety

Risk Management Approach

The Ministry of Transportation and Infrastructure began a gradual shift towards ERM over the past decade. It is moving from "siloed" risk management to a process that seeks a wider understanding of organizational risks and aligns risk management with the strategies, goals and objectives of the organization.

The ministry created an ERM steering committee, conducted awareness and information sessions, and performed a series of risk workshops across the ministry including for the Southern Interior Region Engineering Branch. The risk management materials produced during this process were used to assess the results of the employee engagement survey and help prioritize risk areas.

Within the branch, project teams manage risks through a variety of processes. Teams deal with risks on a daily basis, and risks are assessed at project team meetings. Significant risks are reported to the regional management level. Technical risks go to the regional manager of engineering or are raised with the Chief Highway Engineer. Risks or issues that affect the scope, schedule or budget are reported on a monthly basis and recorded in project status reports. If risks cannot be resolved at the regional level, they are presented at monthly meetings to the Planning and Programming Branch in Victoria. Issues are documented and presented to the Capital Program Board as and when required.

Within the Engineering Business Unit, risk management is embedded in engineering guidelines and captured in design criteria sheets. Above the unit, at the project management level, a risk register – which goes beyond technical risks to include risks to cost, timeline and quality from internal and external sources – is completed. Contract risks are also assessed using a risk register model.

Findings

Project-level risks are managed differently from organization-level risks in the Southern Interior Region Engineering Branch. Project-level risks are identified, assessed and mitigated using technical engineering standards, project management practices and risk registers. There is a risk register model for contracts and a process to assess effectiveness and efficiency and to share lessons learned across the organization. Organization-level risks were identified during risk management workshops in 2007, but are managed as part of daily practice rather than through development and updating of formal risk registers.

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COMMENT FROM MINISTRY OF TRANSPORTATION AND INFRASTRUCTURE

The Ministry of Transportation and Infrastructure thanks the Office of the Auditor General for auditing risk management and enterprise risk management (ERM) in the Southern Interior Region (SIR) Engineering program area.

The Ministry has effective risk management practices in place which are embedded in the culture of the organization. We appreciate the potential benefits of the formalized ERM process and recognize that effectively sustaining ERM is a continuous process that requires ongoing development and adaptation. SIR Engineering and the Ministry are evaluating the most beneficial, efficient and practical manner to sustain the formality of ERM documentation, strengthen processes and enhance successes.

The audit acknowledges that the SIR Engineering program is managing risks and utilizes the ERM framework to identify, assess, assign, and mitigate project-level risks. It also recognizes that although organizational risks were identified during ERM workshops in 2007/2008, updates to formal documentation would be beneficial.

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