



Veterans Affairs
Canada

Anciens Combattants
Canada

Review of the Adequacy of Corporate Risk Management

Final April 2011



Canada 

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Executive Summary

The description of risk developed for the federal Public Service in the context of the Integrated Risk Management Framework is “...*the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organization’s objectives.*” In today’s world, change and uncertainty are constants and risk is present in virtually every situation.

Veterans Affairs Canada (VAC) is in the process of implementing risk management with the goal of it becoming a natural part of Departmental culture. Ensuring effective learning from experience by undertaking regular reviews of the risk management process is significant to the advancement of the maturity of this process at VAC. Thus, this review of the adequacy of corporate risk management at VAC has been undertaken.

Audit Service Canada was contracted to complete the field work from August 2010 to October 2010. This was a review, not an audit, and therefore the engagement was not designed or performed to provide a high level of assurance. The review methodology was limited to the enquiry, analysis and discussion required to gather general point-in-time evidence on the adequacy of corporate risk management at VAC.

Risk management implementation is a work in progress at VAC. Noteworthy progress has been made in the past 12-18 months. For instance, a Risk Management Framework has been developed and was approved by the Senior Management Committee (SMC) at their meeting on December 16, 2009 and the 2009-2010 Corporate Risk Profile (CRP) was approved at their February 24, 2010 meeting. VAC is currently updating the CRP for 2010-2011. Executive interviews indicated that there has been significant progress in the quality of information and analysis on risk and risk management included in documents prepared. Further, it was indicated that risk management is now being much more explicitly considered and documented as a part of planning activities and decision making in the Department.

The results of the review are one year after the development of a Risk Management Framework within VAC. The maturity of the implementation and functioning of VAC’s risk management policies and practices remains a work-in-progress. The Department must plan for the long-term; recognizing that effective implementation of risk management will take time. Critical to the success of full implementation is development of risk management capacity gaps, effective communication, training and development of internal expertise, identification, definition and clarity of roles.

Several Recommendations for improvement have been identified as a result of this review:

R1 It is recommended that VAC's Assistant Deputy Minister, Corporate Services ensure more orientation presentations and training sessions be offered to operational management and other employees. (Essential)		
Corrective action to be taken	Office of Primary Interest	Target date
Conduct a Risk Management Capacity Assessment to further define needs, knowledge gaps and business process requirements	Corporate Planning Division	October 2011
Develop a process for integrated risk management specific to VAC's business processes and needs	Corporate Planning Division	November 2011
Develop specific learning objectives and create and deliver training sessions (self learning, web-based, workshops etc.) as well as monitor and evaluate effectiveness of learning **Some of these actions will occur simultaneously while others must be layered or consecutive.	Corporate Planning Division	September 2012

R2 It is recommended that VAC's Assistant Deputy Minister, Corporate Services ensure Risk Management Working Group (RMWG) members be carefully selected, be given the necessary authority to meet their role expectations (risk management champions) and that their role be more fully defined and clearly communicated to them. (Essential)		
Corrective action to be taken	Office of Primary Interest	Target date
The Terms of Reference and selection criteria will be expanded to ensure roles, responsibilities and key activities are clearly defined and that members have the necessary corporate perspective	Corporate Planning Division	September 2011
Senior Managers must ensure that sufficient and appropriate representation exists	Senior Management Committee	September 2011

R3 It is recommended that VAC's Assistant Deputy Minister, Corporate Services ensure formal risk management training be undertaken to develop adequate in-house expertise. (Essential)

Corrective action to be taken	Office of Primary Interest	Target date
Deliver training tailored to meet the needs and knowledge levels of staff	Corporate Planning Division	September 2012
Attend TBS Risk Management fora	Corporate Planning Division	September 2012

R4 It is recommended that VAC's Assistant Deputy Minister, Corporate Services as the designated Chief Risk Officer, officially delegate the necessary authority to effectively perform the assigned roles and responsibilities in the Risk Management Framework and expand the defined roles to describe who is accountable for risk outcomes. (Essential)

Corrective action to be taken	Office of Primary Interest	Target date
<p>Delegate the necessary authority to provide strong leadership and direction on the expectations for full risk management integration throughout VAC by:</p> <ul style="list-style-type: none"> - building on the current governance structure to clearly articulate the expectations, roles, responsibilities and accountabilities for risk outcomes - develop more robust reporting mechanisms for monitoring progress 	ADM, Corporate Services / Corporate Planning Division	<p>June 2011</p> <p>December 2011</p>

R5 It is recommended that VAC's Assistant Deputy Minister, Corporate Services as the designated Chief Risk Officer, complete the implementation of Risk Management Framework to include the key operational and other risks identified at a branch or business unit level. (Essential)

Corrective action to be taken	Office of Primary Interest	Target date
Build on the existing practices, processes and structures to further broaden the implementation of integrated risk management within all VAC business areas by: <ul style="list-style-type: none"> - developing comprehensive risk action plans - monitoring and maintaining the Corporate Risk Register - reporting on a quarterly basis to Risk Management Board (RMB) 	Corporate Planning Division	March 2012

R6 It is recommended that VAC's Assistant Deputy Minister, Corporate Services as the designated Chief Risk Officer, develop mechanisms to provide for urgent and immediate action when monitoring and assessing identified current operational or other risks at the branch and business unit level. (Essential)

Corrective action to be taken	Office of Primary Interest	Target date
Develop and document processes for escalating urgent and emerging interim risks by establishing a strong liaison between operational levels and the existing governance structure	Corporate Planning Division	December 2011

R7 It is recommended that VAC's Assistant Deputy Minister, Corporate Services as the designated Chief Risk Officer, revise the Risk Management Framework to provide sufficient specific guidance on how branch or business unit level risks and risk management processes should be dealt with. In addition, specific action plans should be developed for each key risk and opportunity identified in the CRP. (Essential)

Corrective action to be taken	Office of Primary Interest	Target date
Revise the Risk Management Framework to provide guidance and direction on branch and business level processes by: - developing Risk Management Guidelines and processes, and - developing action plans for each key risk and opportunity identified in the Corporate Risk Profile and in branch and business units risk profiles	Corporate Planning Division	March 2012 March 2012

Original signed by

April 6, 2011

Orlanda Drebit
Chief Audit Executive

Date

Introduction

The Government of Canada is committed to strengthening risk management practices in the public service to promote sound decision-making and accountability. As such, in 2001 the Treasury Board of Canada Secretariat (TBS) developed the Integrated Risk Management (IRM) Framework 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 their annual expectations for good public service management, and includes an assessment of risk management in each federal government department. For VAC, Round VII of the TBS MAF assessment acknowledged that VAC *“is pursuing continuous improvement in many areas of its IRM approach and is encouraged to maintain momentum in the implementation and sustainability of its IRM practice”*. This assessment also noted that *“In 2009, VAC developed a revised Risk Management Framework and an updated Corporate Risk Profile. IRM information is routinely considered in decision-making and parliamentary reporting. Efforts are being made in the areas of training, tools and communication.”*

In August 2010, VAC contracted Audit Services Canada to assess the adequacy of corporate risk management within the Department. Ensuring effective learning from experience by undertaking regular reviews of the risk management process is significant to the advancement of the maturity of this process at VAC. VAC has made noteworthy progress in the past 12-18 months; however, corporate risk management is still a work in progress. Several recommendations for improvement have been identified and can be found in this report to assist the Department in further implementing risk management.

Review Objectives:

The Review had the following objectives:

1. to review compliance of VAC's approved risk management framework with Treasury Board's recommended risk management approach as expressed in the 2001 TBS Integrated Risk Management Framework and the 2004 Integrated Risk Management Implementation Guide for the purpose of providing review observations;
2. to review the extent to which roles and responsibilities have been clearly defined and assigned for VAC corporate risk management for the propose of providing review observations; and
3. to review the extent to which VAC follows a corporate and systematic approach to risk management for the purpose of providing review observations.

Review Scope and Methodology:

The planning and fieldwork for the review was conducted from August 2010 to October 2010 and focused on activities and processes in place during and post implementation of VAC's Risk Management Framework during the first two quarters of the 2010-2011 fiscal year.

This was a review, not an audit, and therefore the engagement was not designed or performed to provide a high level of assurance. The review methodology was limited to the enquiry, analysis and discussion required to gather general point-in-time evidence on the adequacy of corporate risk management at VAC.

The fieldwork for this review was directed at the following risk management related Core Management Controls (i.e., circa 2007):

1. management has a documented approach with respect to risk management;
2. management identifies the risks that may preclude the achievement of its objectives;
3. management identifies and assesses the existing controls to manage risks;
4. management assesses the risks it has identified;
5. management formally responds to its risks;
6. management appropriately communicates its risk and risk management strategies to key stakeholders;
7. planning and resource allocations consider risk management; and
8. independent oversight exists to monitor and provide assurance on the quality of risk management and due diligence in decision making.

Findings and Recommendations:

Objective 1 - To review compliance of VAC's approved risk management framework with Treasury Board's recommended Risk Management approach as expressed in the 2001 TBS Integrated Risk Management Framework and the 2004 Integrated Risk Management Implementation Guide for the purposes of providing review observations.

The following criteria were used to evaluate Objective 1, and our related findings and recommendations are detailed below:

Criteria 1-1 - Management has a comprehensive and documented approach to risk management that is well communicated and well understood.

As a result of our document review and interviews, we have found that:

- All VAC staff interviewed had at least a general awareness and understanding of the need for risks and risk management to be considered in their area of responsibility, but not everybody was appropriately familiar with the VAC's Risk Management Framework or the 2009-2010 CRP.
- Articles in the Carillon and e-mail communication have been used to inform employees about the Risk Management Framework and the 2009-2010 CRP.
- The Risk Management Framework and the 2009-2010 CRP documents are available to all VAC employees through the departmental intranet site (VAC Today).
- The Corporate Planning Division has facilitated various presentations to groups within the department and more sessions are being developed or planned. Specific session evaluations by participants attending these sessions are used; however, learning objectives are not defined for training sessions, and their effectiveness is not yet being formally monitored or assessed.
- Members of the Risk Management Working Group (RMWG) are expected to be the risk management 'champions' in their specific division or business area, as well as key communicators on the subject matter and related processes within VAC. However, not all RMWG members (or their alternates) have received adequate risk management training. Further, from communications and developmental perspectives, information or messages delivered by RMWG members within their branch or business unit are not always consistent.
- Certain communication deliverables originally planned for the Risk Management Framework implementation have been delayed or deferred due to other priorities and related capacity impacts within the Communications Division at VAC. A Communications Strategic Plan (dated August 2010) has been prepared that lays out a variety of initiatives aimed at enhancing awareness and understanding of VAC's risk management policies and processes. The Plan includes a requirement for an evaluation of its results.

Recommendations:

R1 It is recommended that VAC's Assistant Deputy Minister, Corporate Services ensure more orientation presentations and training sessions be offered to operational management and other employees. (Essential)

Management Response¹

This recommendation is in line with VAC's future direction of fully integrating risk management practices within its business processes and is the required "next step" to realize this goal. It validates the current direction and is consistent with the needs being identified throughout the portfolio.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
Conduct a Risk Management Capacity Assessment to further define needs, knowledge gaps and business process requirements	Corporate Planning Division	October 2011
Develop a process for integrated risk management specific to VAC's business processes and needs	Corporate Planning Division	November 2011
Develop specific learning objectives and create and deliver training sessions (self learning, web-based, workshops etc.) as well as monitor and evaluate effectiveness of learning **Some of these actions will occur simultaneously while others must be layered or consecutive.	Corporate Planning Division	September 2012

¹ Given the importance of VAC implementing full integration of risk management practices throughout VAC (over the next 1 - 3 years), the timelines allowed to develop this action plan are of concern. It should be understood that a more comprehensive action plan will be developed to better define and articulate the actions required, in particular, following a risk capacity assessment.

Given the additional scope of work in responding to the recommendations, the proposed target dates are contingent upon an increase of one full time employee in the Risk Management section of Corporate Planning commencing no later than 1 April 2011. With this, it is expected that outcomes will be achieved within an 18 month timeframe, i.e. September 2012.

R2 It is recommended that VAC's Assistant Deputy Minister, Corporate Services ensure Risk Management Working Group (RMWG) members be carefully selected, be given the necessary authority to meet their role expectations (risk management champions) and that their role be more fully defined and clearly communicated to them. (Essential)

Management Response

VAC concurs with this recommendation as it speaks to the importance of having the right people representing their respective areas on the RMWG. These individuals must have the knowledge, ability, credibility and authority to make decisions, give and receive feedback, champion and direct risk management activities to be effective in their role as a working group member.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
The Terms of Reference and selection criteria will be expanded to ensure roles, responsibilities and key activities are clearly defined and that members have the necessary corporate perspective	Corporate Planning Division	September 2011
Senior Managers must ensure that sufficient and appropriate representation exists	Senior Management Committee	September 2011

Criteria 1-2 - Management identifies and assesses the existing strategies/controls to manage risks.

As a result of our document review and interviews, we have found that:

- The process used to develop the 2009-2010 CRP included input and involvement from various business areas and functions within VAC.
- The Chief Financial Officer (CFO) as VAC's Chief Risk Officer, prepares a brief Annual Statement certifying compliance with the Risk Management Framework. This statement is provided to the Departmental Audit Committee (DAC), which includes the Deputy Minister. There is currently no policy requirement for the provision of such a statement with respect to departmental risk management frameworks.

- The CFO also prepares an annual *Statement of Management Responsibility Including Internal Control Over Financial Reporting* as required by the Treasury Board *Policy on Internal Control*. One of the expected results of this policy is that the department has an effective risk-based system of internal control in place. The due process and documentation supporting this annual statement is more developed than it is for the certification of compliance with VAC's Risk Management Framework.
- The relationship between the Risk Management Framework implementation at an overall departmental strategic objectives level (i.e., resulting in the CRP) and the ongoing management of risk, controls and residual risk by the various business units or functional areas is not yet fully or adequately defined or implemented.
- Various operational risk management activities are taking place within business units, but these have not yet been effectively integrated with or covered by the Risk Management Framework processes.

Criteria 1-3 - Management appropriately communicates its risks and risk management strategies to key stakeholders.

As a result of our document review and interviews, we have found that:

- The 2009-2010 CRP dealt with the key risks and opportunities that could impact VAC's strategic objectives. These risks and opportunities were identified as a result of the implementation of the Risk Management Framework during the Summer and Fall of 2009.
- VAC's DAC provided input and advice during the development of both the Risk Management Framework and the 2009-2010 CRP.
- VAC's Risk Management Framework and 2009-2010 CRP information has been an input into the TBS MAF process.
- All employees have access to the Risk Management Framework and the 2009-2010 CRP via "VAC Today", the Department's intranet.
- There are no significant gaps or deviations from TBS risk management policy requirements or guidance.
- Risk management reporting is to be provided to the DAC on the basis specified in their annual reporting calendar – quarterly during 2008/09, quarterly during 2009/2010 and annually during 2009/2010. Our review of DAC minutes indicated that risk management was a regular item of discussion at DAC meetings.
- Risk management reporting is provided to the Senior Management Committee (SMC) and the Risk Management Board (RMB).
- Quarterly reporting against the 2009-2010 CRP did not provide much new information on planned initiatives or the progress or action taken against those key risks, opportunities or commitments identified.

Criteria 1-4 - Planning and resource allocations consider risk management.

As a result of our document review and interviews, we have found that:

- Risk management capacity, in terms of resources available, knowledge and expertise, was regularly identified as a significant challenge to the effective use, evolution and integration of risk management at VAC.
- In the Spring of 2009, the Department hired an accredited risk management professional as a casual employee at the EX-01 level to address an internal lack of capacity needed to implement risk management at VAC. The term of this employment lasted until December of 2009.
- The role of this employee included the alignment of risk management within the Department under one framework, development and implementation of an updated risk management framework at VAC, development of a risk management governance model, development and delivery of risk management training and provision of subject matter expertise as needed.
- Individuals interviewed indicated that resource allocation and planning decisions captured in official documents (Treasury Board Submissions and Memoranda to Cabinet) now include a risk assessment (i.e., beyond legal risks), which had not previously always been included. However, internal expertise is not used for all risk assessments. The same accredited risk management professional who was previously hired casually was subsequently contracted to develop the risk assessment section for a Treasury Board Submission the Department was preparing in August of 2010, indicating that internal expertise was not deemed sufficient for the preparation of this risk assessment.
- VAC's General Counsel is on the RMB and legal risks are specifically assessed as part of the planning for any new initiative or proposal. Further, legal representatives sit on most standing and ad hoc planning management committees so that input and advice on legal and related risks may be identified and dealt with proactively.
- SMC members interviewed indicated that risks and risk management are now being specifically considered and documented more comprehensively than in the past. However, while progress was acknowledged, it was indicated that further effort would be required in order to achieve and sustain the level of quality and consistency desired. The Department has been challenged to maintain capacity to deliver risk management expertise from within.
- Senior managers noted an improvement in the quality of the information on risk and risk management in proposals or requests coming forward from within the Department, however, they also noted that there is significant work to be done in this regard as the department continues to be challenged to maintain internal capacity.
- Certain resource allocation decisions at the business unit and the committee level consider risk and demonstrate the benefits of having applied risk management in decision-making.

- There were indications that risk management has been an agenda item on branch or business unit operational management meetings. There was limited information available on how significant or robust risk management discussions were at these meetings.
- VAC's Audit and Evaluation (A&E) Division is represented on the RMWG, and RMB and A&E annual planning is risk-based as per Treasury Board policies to monitor and identify key risks within the department. However, the involvement from the A&E Division ceased while this review was being completed.
- Certain training and communication initiatives identified in the Risk Management Framework were delayed or have been deferred.

Recommendation:

R3 It is recommended that VAC's Assistant Deputy Minister, Corporate Services ensure formal risk management training be undertaken to develop adequate in-house expertise. (Essential)

Management Response

This recommendation is a fundamental step in leading the Department to full integration of risk management and to retain credibility in VAC's capacity to deliver on this goal. It is essential to the success of implementing these recommendations, in particular #'s 1, 5, 6 & 7. As articulated by DAC members at the TBS Horizontal Risk Management Forum (November, 2010) and also by the Head of the Public Service and Clerk of the Privy Council (17th Annual Report to the PM on the Public Service, March, 2010), interdepartmental collaboration and sharing of best practices are crucial and cost effective methods to develop in-house expertise.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
Deliver training tailored to meet the needs and knowledge levels of staff	Corporate Planning Division	September 2012
Attend TBS Risk Management fora	Corporate Planning Division	September 2012

Objective 2 – To review the extent to which roles and responsibilities have been clearly defined and assigned for VAC corporate risk management for the purposes of providing review observations

The following criteria were used to evaluate Objective 2, and our related findings and recommendations are detailed below:

Criteria 2-1 - Management has a documented approach to risk management with respect to roles, responsibilities and accountabilities.

As a result of our document review and interviews, we have found that:

- VAC's Risk Management Framework provides a summary of the assigned risk management roles and responsibilities, including those assigned to key positions, groups (e.g. RMB, RMWG), and all VAC employees. However, we did not find any documentation that specifies decision making authority necessary for risk management and mitigation activities nor do the documented roles and responsibilities make clear who is accountable for risk outcomes.
- The Risk Management Framework designates the Assistant Deputy Minister (ADM) of Corporate Services as the Chief Risk Officer for VAC. The ADM of Corporate Services is also VAC's CFO and Chief Information Officer (CIO).
- The approved terms of reference for the DAC, RMB and RMWG provide documentation of their respective roles relating to risk management at VAC.
- The Risk Management Framework includes a requirement for quarterly reporting against the CRP, as well as an annual review and updating of the CRP.
- While the Risk Management Framework refers generally to risks and risk management activities beyond those directly dealt with by the CRP – i.e., at the branch or business unit levels – it does not provide sufficient guidance on how these branch or business unit risks and processes should be dealt with.
- The roles and function of the Chief Risk Officer and RMWG members (including as risk officers in their branch or business unit) are defined at a summary level only.
- The role and function of a designated risk owner as it relates to the CRP is defined at a summary level only.
- The designation, role and function of risk owner as it relates to those operational and other risks not specifically incorporated into the CRP are not clearly defined.

Recommendation:

R4 It is recommended that VAC's Assistant Deputy Minister, Corporate Services as the designated Chief Risk Officer, officially delegate the necessary authority to effectively perform the assigned roles and responsibilities in the Risk Management Framework and expand the defined roles to describe who is accountable for risk outcomes. (Essential)

Management Response

It is evident that strong leadership and direction are essential to ensure maximum engagement at all levels. To achieve this, appropriate delegation of authority and clearly articulated expectations, roles and responsibilities and expected risk outcomes must be in place.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
Delegate the necessary authority to provide strong leadership and direction on the expectations for full risk management integration throughout VAC by: - building on the current governance structure to clearly articulate the expectations, roles, responsibilities and accountabilities for risk outcomes - develop more robust reporting mechanisms for monitoring progress	ADM, Corporate Services / Corporate Planning Division	June 2011 December 2011

Criteria 2-2 - Independent oversight exists to monitor and provide assurance on the quality of risk management and due diligence in risk decision-making.

As a result of our document review and interviews, we have found that:

- The DAC mandate includes oversight as it relates to risk management.
- The DAC receive an update at each meeting on a number of key matters, including risk management.
- Risk management is on the DAC calendar for an annual detailed review.
- The DAC provided input and support to the development and implementation of the Risk Management Framework and the 2009-2010 CRP.
- The RMB, which is a sub-committee of SMC, provides the ongoing monitoring and consideration of the Risk Management Framework and the CRP. It makes recommendations to SMC on key matters or decisions relating to risk management.

- The Communications Division is represented on the RMWG but is not a member of the RMB. The Director General (DG) of the Communications Division indicated that he sits on SMC and any recommendations coming forward from the RMB for decision will come to his attention at SMC.
- The Risk Management Framework and the RMWG terms of reference provide summary information on the roles and responsibilities of the group in total and of its members individually. Information was not available on how the RMWG or VAC is or will be monitoring and measuring the performance of the group or individual members.

Objective 3 - To review the extent to which VAC follows a corporate and systematic approach to risk management for the purposes of providing review observations.

The following criteria were used to evaluate Objective 3, and our related findings and recommendations are detailed below:

Criteria 3-1 - Management identifies the internal and external risks including, but not limited to; legal risk, operational risk, financial risk, and reputational risk that may preclude the achievement of its objectives.

As a result of our document review and interviews, we have found that:

- There was a broad based VAC consultative process in Summer and Fall 2009 to identify, analyze and assess identified risks and opportunities. There was a facilitated 1-day session in November 2009 where executive and other management attendees went through various (but not all) identified risks and opportunities.
- Risks are identified by RMWG members and brought to the RMWG as a whole where the decision is made on which risks to elevate to the RMB. The RMB then decides which risks to elevate to SMC. These risks are then considered for inclusion in the CRP.
- The hundreds of identified risks not considered for inclusion in the CRP are maintained in a database by Corporate Planning. Ongoing management and monitoring of these risks are expected to be the responsibility of the RMWG member representative of the affected unit/branch. However, there is not the equivalent of the CRP documented for each of the units or branches for 2009-10.
- In 2010, Corporate Planning began working with the various business units to capture additional information on branch or business unit risks and develop risk management plans for these risks.

Recommendation:

R5 It is recommended that VAC's Assistant Deputy Minister, Corporate Services as the designated Chief Risk Officer, complete the implementation of Risk Management Framework to include the key operational and other risks identified at a branch or business unit level. (Essential)

Management Response

It is understood that the intent of this recommendation is to further articulate key risks at the branch and business levels; however, this would not occur through the Risk Management Framework, rather through practices, processes and structures established during full integration of risk management.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
Build on the existing practices, processes and structures to further broaden the implementation of integrated risk management within all VAC business areas by: <ul style="list-style-type: none">- developing comprehensive risk action plans- monitoring and maintaining the Corporate Risk Register- reporting on a quarterly basis to Risk Management Board (RMB)	Corporate Planning Division	March 2012

Criteria 3-2 - Management regularly assesses the risks it has identified. The risk assessment process considers the results of the control assessment.

As a result of our document review and interviews, we have found that:

- Risk management monitoring and reporting below or outside of the CRP (e.g., at the branch or business unit levels) is less formal or ad hoc.
- Certain business units – e.g., St Anne's, Finance, and Corporate Planning – are and have been dealing with risk management processes (albeit possibly under another name) for some time. In terms of the current and future capacity challenges mentioned by many of the managers interviewed, VAC's ability to effectively leverage such existing background and experience will be essential.
- The draft 2010-2011 CRP did not specifically include as key risks the recent issues being dealt with by VAC. It was indicated that information security and privacy had been brought forward to RMWG and RMB members as a key risk consideration, however the decision was to mitigate more strategically.

Recommendation:

R6 It is recommended that VAC's Assistant Deputy Minister, Corporate Services as the designated Chief Risk Officer, develop mechanisms to provide for urgent and immediate action when monitoring and assessing identified current operational or other risks at the branch and business unit level. (Essential)

Management Response

The existing governance structure creates a strong mechanism for identifying and reviewing risks on a quarterly basis. The need to have processes established for escalating urgent and emerging risks outside of this timeframe is evident.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
Develop and document processes for escalating urgent and emerging interim risks by establishing a strong liaison between operational levels and the existing governance structure	Corporate Planning Division	December 2011

Criteria 3-3 - Management formally responds (e.g., avoid, mitigate or accept) to its risks and communicates to all necessary parties.

As a result of our document review and interviews, we have found that:

- The 2009-2010 CRP included a summary of risk as well as the specific key risks to the achievement of VAC's strategic objectives. There were also current and proposed commitments for treating the summary risks identified in the CRP.
- The risk management plans for each of the specific key risks identified in the CRP were not part of the 2009-2010 CRP document, and there was no evidence provided confirming that such plans existed as of October 2010.
- In addition to the three key risks and two opportunities detailed in the CRP, 12 branch or business unit level risks were also identified in the CRP.
- During 2010, the Corporate Planning Division started to gather and compile information on more specific risk management planning summaries (i.e. risk profiles) of the branches and business units. The information was being provided to the Corporate Planning Division by RMWG members.

Recommendation:

R7 It is recommended that VAC's Assistant Deputy Minister, Corporate Services as the designated Chief Risk Officer, revise the Risk Management Framework to provide sufficient specific guidance on how branch or business unit level risks and risk management processes should be dealt with. In addition, specific action plans should be developed for each key risk and opportunity identified in the CRP. (Essential)

Management Response

The Risk Management Framework sets out specific principles for managing risks within VAC. Rather than revise this document to such a level of detail, this need is better met through the establishment of guidelines and tools specific to full integration at all levels of the organization.

Management Action Plan

Corrective action to be taken	Office of Primary Interest	Target date
Revise the Risk Management Framework to provide guidance and direction on branch and business level processes by: - developing Risk Management Guidelines and processes, and - developing action plans for each key risk and opportunity identified in the Corporate Risk Profile and in branch and business units risk profiles	Corporate Planning Division	March 2012 March 2012

Review Summary Observation

Identification of risks and risk management is not new to VAC. On their own, various units/branches and committees have been dealing with operational risk and risk management considerations for years (e.g., finance, information technology, legal, hospital). However, without a department-wide formal risk management process there is inconsistency in the application and results of these individual risk management practices.

Over the past 12-18 months VAC has made significant progress in terms of the design and implementation of a department-wide risk management framework. In terms of design, the framework is documented, a 2009-2010 CRP was developed and the 2010-2011 CRP was being developed at the time of our review.

The maturity of the implementation and functioning of VAC's risk management policies and practices remains a work-in-progress. Some of the Department's projects and business processes are undergoing, or set to undergo, significant change which may lead to a lack of time, energy and resources to commit to installing and following a new process. However, there is a consistent appreciation at all levels of management interviewed or surveyed that ongoing and sustained effort will be required to get VAC risk management to the level of maturity required or warranted for an organization of its size and significance.

The Department must plan for the long-term; recognizing that effective implementation of risk management will take time. Communication, training and development of internal expertise, identification and development of risk management capacity gaps, role definition and clarity, and integration of operational level risk management activities into the overall risk management framework of the Department continue to be critical in achieving longer-term implementation success. Longer-term implementation success will have been achieved when risk management processes are integral to the Department and are consistently and routinely applied to most or all decisions, areas and projects.

DISTRIBUTION

Deputy Minister
Associate Deputy Minister
Veterans Ombudsman
Chief of Staff to the Minister
Departmental Audit Committee Members
Assistant Deputy Minister, Corporate Services
Assistant Deputy Minister, Policy, Communications and Commemoration
Assistant Deputy Minister, Service Delivery
Director General, Communications
Director General, Corporate Planning
Director General, Departmental Secretariat and Policy Coordination
Director General, Human Resources
Director General, Policy and Research
Executive Director and Chief Pensions Advocates
Executive Director, Ste. Anne's Hospital
Executive Director, Transformation
General Counsel, Legal Services
Executive Advisors to the Deputy Minister
Executive Advisor to the Associate Deputy Minister
Director, Briefing, Coordination and Liaison
Office of the Comptroller General (Internal Audit Registrar)
Office of the Auditor General

Appendix A – Objectives, Criteria and Methodology

Objective	Criteria	Methodology
<p>Objective 1:</p> <p>To review compliance of VAC's approved risk management framework with Treasury Board's recommended Risk Management approach as expressed in the 2001 TBS Integrated Risk Management Framework and the 2004 Integrated Risk Management Implementation Guide for the purposes of providing review observations.</p>	<p>1-1 Management has a comprehensive and documented approach to risk management that is well communicated and well understood.</p> <p>1-2 Management identifies and assesses the existing strategies/controls to manage risks.</p> <ul style="list-style-type: none"> Input into the control assessment comes from a variety of sources including: line managers, internal audit, security, legal, etc <p>1-3 Management appropriately communicates its risks and risk management strategies to key stakeholders.</p> <ul style="list-style-type: none"> To management and oversight committees. Via key planning and performance reports. Communication to stakeholders on risks and risk management strategies is meaningful, pertinent, timely and conforms to legal and regulatory requirements. <p>1-4 Planning and resource allocations consider risk management.</p>	<p>Interviews, document review, and mapping of VAC's current risk management process and framework.</p>
<p>Objective 2:</p> <p>To review the extent to which roles and responsibilities have been clearly defined and assigned for VAC corporate risk management for the purposes of providing review observations.</p>	<p>2-1 Management has a documented approach to risk management with respect to roles, responsibilities and accountabilities.</p> <p>2-2 Independent oversight exists to monitor and provide assurance on the quality of risk management and due diligence in risk decision making.</p> <ul style="list-style-type: none"> An oversight committee (such as the Departmental Audit Committee) with formal responsibility for monitoring risk and risk management exists and receives and considers relevant and complete information from a variety of sources (including management and internal audit), in a timely fashion to permit them to monitor management's risk profile and risk management strategies. The oversight committee concurs with the organization's risk tolerance levels. 	<p>Interviews and document review.</p>

<p>Objective 3:</p> <p>To review the extent to which VAC follows a corporate and systematic approach to risk management for the purposes of providing review observations.</p>	<p>3-1 Management identifies the internal and external risks including, but not limited to; legal risk, operational risk, financial risk, and reputational risk that may preclude the achievement of its objectives.</p> <p>3-2 Management regularly assesses the risks it has identified. The risk assessment process considers the results of the control assessment.</p> <ul style="list-style-type: none"> • Residual risk exposure is examined against established risk tolerances by the level of management responsible for the risk. <p>3-3 Management formally responds (e.g. avoid, mitigate or accept) to its risks and communicates to all necessary parties.</p> <ul style="list-style-type: none"> • Action plans are put in place to manage or treat risks that are deemed by management to be unacceptable. 	<p>Interviews and document review.</p>
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Appendix B – List of Interviews Conducted by Interviewee Title

Deputy Minister, DAC Member/Chair
ADM Corporate Services, Chief Risk Officer, Risk Management Board – Chair
General Counsel, Risk Management Board – Member
ADM Service Delivery and Commemoration
Regional Director General – Western Region
Regional Director General – Quebec Region
Executive Director, Ste. Anne's Hospital
DG Communications
DG Corporate Planning, Risk Management Board - Member
DG Human Resources Division
DG Departmental Secretariat and Policy Coordination
DG Finance, Risk Management Board – Member
DG Audit and Evaluation
Senior Manager, Partnerships
Director, Accountability and Risk, Risk Management Working Group – Co-Chair
Project Officer, Risk Management Working Group – Member
Senior Project Officer

Among other management and staff, we (Audit Services Canada) had planned on interviewing the Senior Assistant Deputy Minister (ADM) of Policy, Planning and Partnerships and the Director General of Information Technology and Information Management. However, due to scheduling difficulties, ultimately we were not able to meet with these two during this review.

Appendix C – Common Terms and Definitions

a. **Corporate Risk Profile** is a summary of the top level priority risks of the Department that could challenge the achievement of objectives developed through use of an explicit, documented and rigorous process.

b. **Integrated Risk Management** is 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.

c. **Legal Risk** is a risk arising out of an issue or event giving rise to a need for a legal response. A legal risk may also arise from a legal issue requiring a response or action by the government of legal, communication-related, organizational or political nature.

d. **Opportunity** is a time, condition, or set of circumstances permitting or favourable to a particular action or purpose.

e. **Residual risk** is the remaining level of risk after taking into consideration risk mitigation measures and controls in place.

f. **Risk** refers to the effect of uncertainty on objectives. It is the expression of the likelihood and impact of an event with the potential to affect the achievement of an organization's objectives.

g. **Risk Management Process** is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues.

h. **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 informed risk taking and foster risk smart approaches.

Appendix D – Risk Ranking of Recommendations

The following definitions are used to classify the ranking of recommendations presented in this report.

Review Recommendations	
Critical	Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a high level of risk.
Essential	Relates to one or more significant weaknesses for which no adequate compensating controls exist. The weakness results in a moderate level of risk.