



Treasury Board of Canada
Secrétariat

Secrétariat du Conseil du Trésor
du Canada

Integrated Risk Management

Framework

April 2001



Canada

**Integrated
Risk Management**

Framework

A decorative graphic consisting of several stylized maple leaves in a light purple color, arranged in a vertical, descending sequence on the right side of the page.



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represented by the President of the Treasury Board, 2001

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President's Message



In March 2000, I had the pleasure of tabling the Government of Canada's new management framework, entitled *Results for Canadians*. It outlines how we are modernizing management practices in order to make the Government of Canada more citizen-focused and better prepared to meet Canadians' changing needs and priorities. This *Integrated Risk Management Framework* is an essential part of these modernization efforts.

In an increasingly complex public policy environment, it is important that Public Service employees are encouraged to approach their work with creativity and a desire to innovate. At the same time, however, we must recognize and respect the need to be prudent in protecting the public interest and maintaining public trust. Achieving this balance is what this *Integrated Risk Management Framework* is all about.

This framework is a practical guide to assist public service employees in their decision-making. At the organizational level, it will help departments and agencies to think more strategically and improve their ability to set common priorities. At the individual level, it will help all employees to develop new skills and will strengthen their ability to anticipate, assess and manage risk.

I invite you to read the framework and make use of the concepts, guidelines and examples that relate to your particular needs. I am confident that this framework will lead to the adoption of a more holistic approach to risk management and foster a working environment which supports employees in pursuing new and innovative ways to better serve Canadians.

A handwritten signature in cursive script that reads "Lucienne Robillard".

Lucienne Robillard
President of the Treasury Board

Table of Contents


Introduction	1
Key Concepts	7
Risk	7
Risk Management	8
Integrated Risk Management	10
An Integrated Risk Management Framework	11
Four Elements and Their Expected Results	11
Element 1: Developing the Corporate Risk Profile	15
External and Internal Environment	15
Assessing Current Risk Management Capacity	17
Risk Tolerance	17
Element 2: Establishing an Integrated Risk Management Function	19
Strategic Risk Management Direction	19
Integrating Risk Management into Decision-Making	20
Building Organizational Capacity	22
Element 3: Practising Integrated Risk Management	25
A Common Process	25
Integrating Results for Risk Management into Practices at all Levels	30
Tools and Methods	31
Communication and Consultation	33
Element 4: Ensuring Continuous Risk Management Learning	35
Creating a Supportive Work Environment	35
Building Learning Plans in Practices	36
Supporting Continuous Learning and Innovation	37
Conclusion	39



Appendix: Shared Leadership—Suggested Roles and Responsibilities	41
Exhibit 1 – <i>A Common Risk Management Process</i>	26
Exhibit 2 – <i>Risk Management in Public Policy: A Decision-Making Process</i>	29
Exhibit 3 – <i>A Risk Management Model</i>	32



Introduction



The Integrated Risk Management Framework delivers on the commitment set out in *Results for Canadians—A Management Framework for the Government of Canada* (March 2000) to strengthen risk management practices within the Public Service. In doing so, the Integrated Risk Management Framework supports the four management commitments outlined in *Results for Canadians*: citizen focus, values, results and responsible spending. The Integrated Risk Management Framework advances a citizen focus by strengthening decision-making in the public interest and placing more emphasis on consultation and communication. Similarly, it respects core public service values such as honesty, integrity and probity at all levels, and contributes to improved results by managing risk proactively. Integrated risk management also supports a whole-of-government view grounded in rational priority setting and principles of responsible spending.

The need for more affordable and effective government combined with trends towards revitalizing human resources capacity and redesigning service delivery are dramatically affecting the structure and culture of public organizations. The faster pace and need for innovation, combined with significant risk-based events from computer failures to natural disasters, has focused attention on risk management as essential in sound decision-making and accountability.

Responding to the need to strengthen risk management as a priority on the government management agenda, the Treasury Board of Canada Secretariat (the Secretariat) led research and consultations on risk management in collaboration with federal organizations, academics and private interests. The results highlighted the need for a common understanding of risk management and a more corporate, systematic approach. Informed by knowledge and experience from the public and private sectors in Canada and internationally, the Secretariat and its partners collaborated on the development of an Integrated Risk Management Framework.

This Framework is designed to advance the development and implementation of modern management practices and to support innovation throughout the federal Public Service. It provides a comprehensive approach to better integrate risk management into strategic decision-making.


The Framework provides an organization with a mechanism to develop an overall approach to manage strategic risks by creating the means to discuss, compare and evaluate substantially different risks on the same page. It applies to an entire organization and covers all types of risks faced by that organization (e.g., policy, operational, human resources, financial, legal, health and safety, environment, reputational).

The purpose of the Integrated Risk Management Framework is to:

- ✿ provide guidance to advance the use of a more corporate and systematic approach to risk management;
- ✿ contribute to building a risk-smart workforce and environment that allows for innovation and responsible risk-taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust, and ensure due diligence; and
- ✿ propose a set of risk management practices that departments can adopt, or adapt, to their specific circumstances and mandate.

Application of the Framework is designed to strengthen management practices, decision-making and priority setting to better respond to citizens' needs. Moreover, practising integrated risk management is expected to support the desired cultural shift to a risk-smart workforce and environment. More specifically, it is anticipated that implementation of the Framework will:

- ✿ **support the government's governance responsibilities** by ensuring that significant risk areas associated with policies, plans, programs and operations are identified and assessed, and that appropriate measures are in place to address unfavourable impacts and to benefit from opportunities;
- ✿ **improve results** through more informed decision-making, by ensuring that values, competencies, tools and a supportive environment form the foundation for innovation and responsible risk-taking, and by encouraging learning from experience while respecting parliamentary controls;
- ✿ **strengthen accountability** by demonstrating that levels of risk associated with policies, plans, programs and operations are explicitly understood, and that investment in risk management measures and stakeholder interests are optimally balanced; and



✿ **enhance stewardship** by strengthening public service capacity to safeguard people, government property and interests.

Integrated risk management respects and builds on core public service values. Outcomes of applied integrated risk management must be ethical, honest and fair; respect laws, government authorities and departmental policies; and result in prudent use of resources.

The Integrated Risk Management Framework responds to the recommendations contained in the *Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada* (1997), which were approved by Treasury Board ministers. The report highlights a new guiding philosophy for comptrollership. This new philosophy combines a strong commitment to four key elements: performance reporting (financial and non-financial); sound risk management; the application of an appropriate system of control and reporting; and values and ethics. In identifying as a priority the strengthening of risk management across the Public Service, the report stressed the need for:

- ✿ “... executives and employees [to be] risk attuned—not only identifying but also managing risks ...”;
- ✿ “... matching more creative and client-driven decision making and business approaches with solid risk management...”; and
- ✿ “... creating an environment in which taking risks and the consequences of doing so are handled within a mature framework of delegation, rewards and sanctions.”

The Framework builds on existing risk management practices, reflects current thinking, best practices and the value of well-recognized principles for risk management. It is linked with other federal risk management initiatives across government, including recent efforts to strengthen internal audit and increase focus on monitoring. Risk management frameworks are also being developed in areas such as legal risk management and the precautionary approach. In addition, the Integrated Risk Management Framework complements the concepts and approach described in the Privy Council Office report—*Risk Management for Canada and Canadians: Report of the ADM Working Group on Risk Management* (2000). Collectively, these individual initiatives are contributing to strengthening risk management across the federal government in line with modern comptrollership and to improving practices in managing risk from a whole-of-government perspective.

Management Challenges

In today's world, change and uncertainty are constants. With increased demand by parliamentarians for greater transparency in decision-making, better educated and discerning citizens, globalization, technological advances, and numerous other factors, adapting to change and uncertainty while striving for operating efficiency is a fundamental part of the Public Service. Such an environment requires a stronger focus on integrated risk management practices within organizations in order to strategically deal with uncertainty, capitalize upon opportunities, and inform and increase involvement of stakeholders (including parliamentarians), to ensure better decisions in the future.

The challenge for the Public Service of Canada is to approach risk management in a more integrated and systematic way that includes greater emphasis on consultation and communication with stakeholders and the public at large. In meeting this challenge, the Public Service can fulfil its increased responsibility to demonstrate sound decision-making, in line with increasing expectations of due diligence, more intense public and media scrutiny, and initiatives for transparency and open government. Risk management is now seen as an organization-wide issue that, as one of several co-ordinated initiatives, will improve decision-making, enabling the shift to results-based management. Integrated risk management requires looking across all aspects of an organization to better manage risk. Organizations that manage risk organization-wide have a greater likelihood of achieving their objectives and desired results. Effective risk management minimizes losses and negative outcomes and identifies opportunities to improve services to stakeholders and the public at large.

A systematic, integrated but adaptable approach to risk management requires an organization to build capacity to address risk explicitly, to increase the organization's and stakeholders' confidence in its ability to achieve its goals. It contributes to better use of time and resources, improved teamwork and strengthened trust through sharing analyses and actions with partners. In emphasizing the need for more active and frequent consultation and risk communication, an integrated approach to risk management leads to shared responsibility for managing risk. It also increases confidence in the organization's process, and improves public and stakeholder understanding of trade-offs.



Developing a Risk-Smart Workforce and Environment

Application of the Integrated Risk Management Framework, in conjunction with related risk management activities, will support a cultural shift to a risk-smart workforce and environment in the Public Service. Such an environment is one that supports responsible risk management, where risk management is built into existing governance and organizational structures, and planning and operational processes. An essential element of a risk-smart environment is to ensure that the workplace has the capacity and tools to be innovative while recognizing and respecting the need to be prudent in protecting the public interest and maintaining public trust.

Departments whose core mandate focuses directly on public health and safety have traditionally been very proactive in practising systematic risk management. These departments have a long history of addressing the public's low risk tolerance in the areas of health and safety and have, as a result, developed an effective risk management culture. The emerging trends in the public sector environment and challenges associated with the need to adapt to change and uncertainty are contributing to the increased interest in risk management in other public policy areas. This higher level of awareness around risk management and the need to better understand and manage different types of risks in addition to health and safety risks requires a cultural shift. The aim of this cultural shift is to develop a risk-smart workforce throughout the Public Service by ensuring that public servants at all levels are more risk aware and risk attentive, that mitigation measures are proportionate to the issue at hand, and that the necessary tools and processes are in place to support them.

Achieving this cultural change will require sustained commitment throughout the Public Service over a number of years as practices evolve.

Key Concepts



There are three critical concepts that are cornerstones of the Integrated Risk Management Framework: risk, risk management and integrated risk management. These concepts are elaborated on below.

Risk

Risk is unavoidable and present in virtually every human situation. It is present in our daily lives, public and private sector organizations. Depending on the context, there are many accepted definitions of risk¹ in use.

The common concept in all definitions is uncertainty of outcomes. Where they differ is in how they characterize outcomes. Some describe risk as having only adverse consequences, while others are neutral.

While this Framework recognizes the importance of the negative connotation of outcomes associated with the description of risk (i.e., risk is adverse), it is acknowledged that definitions are evolving. Indeed, there is considerable debate and discussion on what would be an acceptable generic definition of risk that would recognize the fact that, when assessed and managed properly, risk can lead to innovation and opportunity. This situation appears more prevalent when dealing with operational risks and in the context of technological risks. For example, Government On-Line (GOL) represents an opportunity to significantly increase the efficiency of public access to government services. It is acknowledged in advance that the benefits of pursuing GOL would outweigh, in the long term, potential negative outcomes, which are foreseen to be manageable.

1. *Australian and New Zealand Public Sector Guidelines for Managing Risk* (HB 143:1999) defines risk as the "chance of something happening that will have an impact on objectives. It is measured in terms of consequences and likelihood."

The Canadian Institute of Chartered Accountants defines risk as "the possibility that one or more individuals or organizations will experience adverse consequences from an event or circumstance."

The *Canadian Standards Association Risk Management: Guidelines for Decision-Makers* (CAN/CSA-Q850-97) defines risk as "the chance of injury or loss as defined as a measure of the probability and severity of an adverse effect to health, property, the environment or other things of value."

The November 1, 2000, working draft of the International Organization for Standardization (ISO) Risk Management Terminology defines risk as the "combination of the probability of an event and its consequences. Note 1- In some situations, risk is a deviation from the expected."

To date, no consensus has emerged, but after much research and discussion, the following description of risk has been developed for the federal Public Service in the context of the Integrated Risk Management Framework:

Risk refers to 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.


The phrase “the expression of the likelihood and impact of an event” implies that, as a minimum, some form of quantitative or qualitative analysis is required for making decisions concerning major risks or threats to the achievement of an organization's objectives. For each risk, two calculations are required: its likelihood or probability; and the extent of the impact or consequences.

Finally, it is recognized that for some organizations, risk management is applied to issues predetermined to result in adverse or unwanted consequences. For these organizations, the definition of risk in the Privy Council Office report², which refers to risk as “a function of the probability (chance, likelihood) of an adverse or unwanted event, and the severity or magnitude of the consequences of that event” will be more relevant to their particular public decision-making contexts. Although this definition of risk refers to the negative impact of the issue, the report acknowledges that there are also positive opportunities arising from responsible risk-taking, and that innovation and risk co-exist frequently.

Risk Management

Risk management is not new in the federal public sector. It is an integral component of good management and decision-making at all levels. All departments manage risk continuously whether they realize it or not—sometimes more rigorously and systematically, sometimes less so. More rigorous risk management occurs most visibly in departments whose core mandate is to protect the environment and public health and safety.

2. *Risk Management for Canada and Canadians: Report of the ADM Working Group on Risk Management* (PCO).



As with the definition of risk, there are equally many accepted definitions of risk management in use. Some describe risk management as the decision-making process, excluding the identification and assessment of risk, whereas others describe risk management as the complete process, including risk identification, assessment and decisions around risk issues. For example, the Privy Council Office’s report refers to risk management as “the process for dealing with uncertainty within a public policy environment.”³

For the purposes of the Integrated Risk Management Framework:

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

In order to apply risk management effectively, it is vital that a risk management culture be developed. The risk management culture supports the overall vision, mission and objectives of an organization. Limits and boundaries are established and communicated concerning what are acceptable risk practices and outcomes.

Since risk management is directed at uncertainty related to future events and outcomes, it is implied that all planning exercises encompass some form of risk management. There is also a clear implication that risk management is everyone’s business, since people at all levels can provide some insight into the nature, likelihood and impacts of risk.

Risk management is about making decisions that contribute to the achievement of an organization’s objectives by applying it both at the individual activity level and in functional areas. It assists with decisions such as the reconciliation of science-based evidence and other factors; costs with benefits and expectations in investing limited public resources; and the governance and control structures needed to support due diligence, responsible risk-taking, innovation and accountability.

3. This is a general definition and while it includes the assessment of risk as a function of the decision-making process, it is not intended to prescribe a system for prioritizing specific risks.

Also of note is that in many international fora, *risk analysis* is used as the more comprehensive label, referring to an overall process for dealing with risk, including identification, assessment and implementation of measures. The use of *management* rather than *analysis* is intended to reflect the general applicability of the concepts to be developed, not only in technical or science-based sectors, but also in other public policy areas.

Integrated Risk Management

The current operating environment is demanding a more integrated risk management approach. It is no longer sufficient to manage risk at the individual activity level or in functional silos. Organizations around the world are benefiting from a more comprehensive approach to dealing with all their risks.

Integrated Risk Management

“Whatever name they put on it—business ... holistic ... strategic ... enterprise—leading organizations around the world are breaking out of the ‘silo mentality’ and taking a comprehensive approach to dealing with all the risks they face.”

—Tillinghast - Towers Perrin

Today, organizations are faced with many different types of risk (e.g., policy, program, operational, project, financial, human resources, technological, health, safety, political). Risks that present themselves on a number of fronts as well as high level, high-impact risks demand a co-ordinated, systematic corporate response.

For the purposes of the Integrated Risk Management Framework:

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.

Integrated risk management requires an ongoing assessment of potential risks for an organization at every level and then aggregating the results at the corporate level to facilitate priority setting and improved decision-making. Integrated risk management should become embedded in the organization’s corporate strategy and shape the organization’s risk management culture. The identification, assessment and management of risk across an organization helps reveal the importance of the whole, the sum of the risks and the interdependence of the parts.

Integrated risk management does not focus only on the minimization or mitigation of risks, but also supports activities that foster innovation, so that the greatest returns can be achieved with acceptable results, costs and risks. Integrated risk management strives for the optimal balance at the corporate level.

The Government of Canada has already used an integrated risk management approach to manage risk related to Y2K and is currently applying the approach to other major initiatives such as Government On-Line and Program Integrity.

An Integrated Risk Management Framework



The Integrated Risk Management Framework provides guidance to adopt a more holistic approach to managing risk. The application of the Framework is expected to enable employees and organizations to better understand the nature of risk, and to manage it more systematically.

Four Elements and Their Expected Results

The Integrated Risk Management Framework is comprised of four related elements. The elements, and a synopsis of the expected results for each, are presented below. Further details on the conceptual and functional aspects of the Framework are provided in subsequent sections of this document.

Element 1: Developing the Corporate Risk Profile

- ✿ the organization's risks are identified through environmental scanning;
- ✿ current status of risk management within the organization is assessed; and
- ✿ the organization's risk profile is identified.

Element 2: Establishing an Integrated Risk Management Function

- ✿ management direction on risk management is communicated, understood and applied;
- ✿ approach to operationalize integrated risk management is implemented through existing decision-making and reporting structures; and
- ✿ capacity is built through development of learning plans and tools.


Element 3: Practising Integrated Risk Management

- ✿ a common risk management process is consistently applied at all levels;
- ✿ results of risk management practices at all levels are integrated into informed decision-making and priority setting;
- ✿ tools and methods are applied; and
- ✿ consultation and communication with stakeholders is ongoing.

Element 4: Ensuring Continuous Risk Management Learning

- ✿ a supportive work environment is established where learning from experience is valued, lessons are shared;
- ✿ learning plans are built into an organization's risk management practices;
- ✿ results of risk management are evaluated to support innovation, learning and continuous improvement; and
- ✿ experience and best practices are shared, internally and across government.

The four elements of the Integrated Risk Management Framework are presented as they might be applied: looking outward and across the organization as well as at individual activities. This comprehensive approach to managing risk is intended to establish the relationship between the organization and its operating environment, revealing the interdependencies of individual activities and the horizontal linkages.



While it is acknowledged that some departments are more advanced than others in moving towards the implementation of an integrated risk management approach, there is growing appreciation across the Public Service of the need to strengthen risk management practices and develop a more strategic and corporate-wide focus. Implementing integrated risk management will depend largely on an organization's state of readiness, overall priorities and the level of effort necessary to implement the various elements. As a result, developing a more mature risk management environment will require sustained commitment and will evolve over time. This Framework is a step in establishing the foundation for integrated risk management in the public sector. It is acknowledged that to support and facilitate implementation, the development of specific tools and guidelines as well as sharing of best practices and lessons learned will be required.

Element 1: Developing the Corporate Risk Profile



A broad understanding of the operating environment is an important first step in developing the corporate risk profile. Developing the risk profile at the corporate level is intended to examine both threats and opportunities in the context of an organization's mandate, objectives and available resources.

In building the corporate risk profile, information and knowledge at both the corporate and operational levels is collected to assist departments in understanding the range of risks they face, both internally and externally, their likelihood and their potential impacts. In addition, identifying and assessing the existing departmental risk management capacity and capability is another critical component of developing the corporate risk profile.

An organization can expect three key outcomes as a result of developing the corporate risk profile:

- *Threats and opportunities are identified through ongoing internal and external environmental scans, analysis and adjustment.*
- *Current status of risk management within the organization is assessed—challenges/opportunities, capacity, practices, culture— and recognized in planning organization-wide management of risk strategies.*
- *The organization's risk profile is identified—key risk areas, risk tolerance, ability and capacity to mitigate, learning needs.*

External and Internal Environment

Through the environmental scan, key external and internal factors and risks influencing an organization's policy and management agenda are identified. Identifying major trends and their variation over time is particularly relevant in providing potential early warnings. Some external factors to be considered for potential risks include:

- ✿ **Political:** the influence of international governments and other governing bodies;
- ✿ **Economic:** international and national markets, globalization;
- ✿ **Social:** major demographic and social trends, level of citizen engagement; and
- ✿ **Technological:** new technologies.

Internally, the following factors are considered relevant to the development of an organization's risk profile: the overall management framework; governance and accountability structures; values and ethics; operational work environment; individual and corporate risk management culture and tolerances; existing risk management expertise and practices; human resources capacity; level of transparency required; and local and corporate policies, procedures and processes.

The environmental scan increases the organization's awareness of the key characteristics and attributes of the risks it faces. These include:

- ✿ **type of risk:** technological, financial, human resources (capacity, intellectual property), health, safety;
- ✿ **source of risk:** external (political, economic, natural disasters); internal (reputation, security, knowledge management, information for decision making);
- ✿ **what is at risk:** area of impact/type of exposure (people, reputation, program results, materiel, real property); and
- ✿ **level of ability to control the risk:** high (operational); moderate (reputation); low (natural disasters).

An organization's risk profile identifies key risk areas that cut across the organization (functions, programs, systems) as well as individual events, activities or projects that could significantly influence the overall management priorities, performance, and realization of organizational objectives.

The environmental scan assists the department in establishing a strategic direction for managing risk, making appropriate adjustments in decisions and actions. It is an ongoing process that reinforces existing management practices and supports the attainment of overall management excellence.



Assessing Current Risk Management Capacity

In assessing internal risk management capacity, the mandate, governance and decision-making structures, planning processes, infrastructure, and human and financial resources are examined from the perspective of risk. The assessment requires an examination of the prevailing risk management culture, risk management processes and practices to determine if adjustments are necessary to deal with the evolving risk environment.

Furthermore, the following factors are considered key in assessing an organization's current risk management capacity: individual factors (knowledge, skills, experience, risk tolerance, propensity to take risk); group factors (the impact of individual risk tolerances and willingness to manage risk); organizational factors (strategic direction, stated or implied risk tolerance); as well as external factors (elements that affect particular risk decisions or how risk is managed in general).

Risk Tolerance

An awareness and understanding of the current risk tolerances of various stakeholders is a key ingredient in establishing the corporate risk profile. The environmental scan will identify stakeholders affected by an organization's decisions and actions, and their degree of comfort with various levels of risk. Understanding the current state of risk tolerance of citizens, parliamentarians, interest groups, suppliers, as well as other government departments will assist in developing a risk profile and making decisions on what risks must be managed, how, and to what extent. It will also help identify the challenges associated with risk consultations and communication.


In the Public Service, citizens' needs and expectations are paramount. For example, most citizens would likely have a low risk tolerance for public health and safety issues (injuries, fatalities), or the loss of Canada's international reputation. Other risk tolerances for issues such as project delays and slower service delivery may be less obvious and may require more consultation.

In general, there is lower risk tolerance for the unknown, where impacts are new, unobservable or delayed. There are higher risk tolerances where people feel more in control (for example, there is usually a higher risk tolerance for automobile travel than for air travel).

Risk tolerance can be determined through consultation with affected parties, or by assessing stakeholders' response or reaction to varying levels of risk exposure. Risk tolerances may change over time as new information and outcomes become available, as societal expectations evolve and as a result of stakeholder engagement on trade-offs. Before developing management strategies, a common approach to the assessment of risk tolerance needs to be understood organization-wide.

Determining and communicating an organization's own risk tolerance is also an essential part of managing risk. This process identifies areas where minimal levels of risk are permissible, as well as those that should be managed to higher, yet reasonable levels of risk.

Element 2: Establishing an Integrated Risk Management Function



Establishing an integrated risk management function means setting up the corporate “infrastructure” for risk management that is designed to enhance understanding and communication of risk issues internally, to provide clear direction and demonstrate senior management support. The corporate risk profile provides the necessary input to establish corporate risk management objectives and strategies. To be effective, risk management needs to be aligned with an organization’s overall objectives, corporate focus, strategic direction, operating practices and internal culture. In order to ensure risk management is a consideration in priority setting and revenue allocation, it needs to be integrated within existing governance and decision-making structures at the operational and strategic levels.

To ensure that risk management is integrated in a rational, systematic and proactive manner, an organization should seek to achieve three related outcomes:

- *Management direction on risk management is communicated, understood and applied—vision, policies, operating principles.*
- *Approach to operationalize integrated risk management is implemented through existing decision-making structures: governance, clear roles and responsibilities, and performance reporting.*
- *Building capacity—learning plans and tools are developed for use throughout the organization.*

Strategic Risk Management Direction

The establishment and communication of the organization’s risk management vision, objectives and operating principles are vital to providing overall direction, and ensure the successful integration of the risk management function into the organization. Using these instruments can reinforce the notion that risk management is everyone’s business.

It is essential that management provides a clear statement of its commitment to risk management and determines the best way to implement risk management in its organization. This includes establishing a corporate focus and communicating internal parameters, priorities, and practices for the implementation of risk management. To reinforce the corporate focus on risk management, organizations may dedicate a small number of resources to

provide both advisory and challenge functions, and to specifically integrate these responsibilities into an existing unit (for example, Corporate Planning and Policy, Comptrollership Secretariat, Internal Audit).

In establishing the strategic risk management direction, internal and external concerns, perceptions and risk tolerances are taken into account. It is also imperative to identify acceptable risk tolerance levels so those unfavourable outcomes can be remedied promptly and effectively. Clear communication of the organization's strategic direction will help foster the creation and promotion of a supportive corporate risk management culture.

Objectives and strategies for risk management are designed to complement the organization's existing vision and goals. In establishing an overall risk management direction, a clear vision for risk management is articulated and supported by policies and operating principles. The policy would guide employees by describing the risk management process, establishing roles and responsibilities, providing methods for managing risk, as well as providing for the evaluation of both the objectives and results of risk management practices.

Integrating Risk Management into Decision Making

Effective risk management cannot be practised in isolation, but needs to be built into existing decision-making structures and processes. As risk management is an essential component of good management, integrating the risk management function into existing strategic management and operational processes will ensure that risk management is an integral part of day-to-day activities. In addition, organizations can capitalize on existing capacity and capabilities (e.g., communications, committee structures, existing roles and responsibilities, etc.)

While each organization will find its own way to integrate risk management into existing decision-making structures, the following are factors that may be considered:

- ✿ aligning risk management with objectives at all levels of the organization;
- ✿ introducing risk management components into existing strategic planning and operational processes;

- ✿ communicating corporate directions on acceptable level of risk; and
- ✿ improving control and accountability systems and processes to take into account risk management and results.

The integration of risk management into decision-making is supported by a corporate philosophy and culture that encourages everyone to manage risks. This can be accomplished in a number of ways, such as:

- ✿ seeking excellence in management practices, including risk management;
- ✿ having senior managers champion risk management;
- ✿ encouraging innovation, while providing guidance and assistance in situations that do not turn out favourably;
- ✿ encouraging managers to develop knowledge and skills in risk management;
- ✿ including risk management as part of employees' performance appraisals;
- ✿ introducing incentives and rewards; and
- ✿ recruiting on risk management ability as well as experience.

Reporting on Performance

The development of evaluation and reporting mechanisms for risk management activities provides feedback to management and other interested parties in the organization and government-wide. The results of these activities ensure that integrated risk management is effective in the long term. Some of these activities could fall to functional groups in the organization responsible for review and audit. Responsibility may also be assigned to operational managers and employees to ensure that information affecting risk that is collected as part of local reporting or practices is incorporated into the environmental scanning process. Reporting could take place through normal management channels (performance reporting, ongoing monitoring, appraisal) as part of the advisory and challenge functions associated with risk management.

Reporting facilitates learning and improved decision-making by assessing both successes and failures, monitoring the use of resources, and disseminating information on best practices and lessons learned. Organizations should evaluate the effectiveness of their integrated risk management processes on a periodic basis. In collaboration with departments, the Treasury Board of Canada Secretariat will review the effectiveness of the Integrated Risk Management Framework and make the necessary adjustments to ensure sustained progress in building a risk-smart workforce and environment.

Building Organizational Capacity

Building risk management capacity is an ongoing challenge even after integrated risk management has become firmly entrenched. Environmental scanning will continue to identify new areas and activities that require attention, as well as the risk management skills, processes, and practices that need to be developed and strengthened.

Organizations need to develop their own capacity strategies based on their specific situation and risk exposure. The implementation of the Integrated Risk Management Framework will be further supported by the Treasury Board of Canada Secretariat, which, through a centre of expertise, will provide overall guidance, advice and share best practices.

To build capacity for risk management, there needs to be a focus on two key areas: human resources, and tools and processes at both the corporate and local levels. The risk profile will identify the organization's existing strengths and weaknesses vis-à-vis capacity. Areas that may require attention include:

Human Resources

- ✿ building awareness of risk management initiatives and culture;
- ✿ broadening skills base through formal training including appropriate applications and tools;
- ✿ increasing knowledge base by sharing best practices and experiences; and
- ✿ building capacity, capabilities and skills to work in teams.



Tools and Processes

- ✿ developing and adopting corporate risk management tools, techniques, practices and processes;
- ✿ providing guidance on the application of tools and techniques;
- ✿ allowing for development and/or the use of alternative tools and techniques that may be better suited to managing risk in specialized applications; and
- ✿ adopting processes to ensure integration of risk management across the organization.

Element 3: Practising Integrated Risk Management

Implementing an integrated risk management approach requires a management decision and sustained commitment, and is designed to contribute to the realization of organizational objectives. Integrated risk management builds on the results of an environmental scan and is supported by appropriate corporate infrastructure.

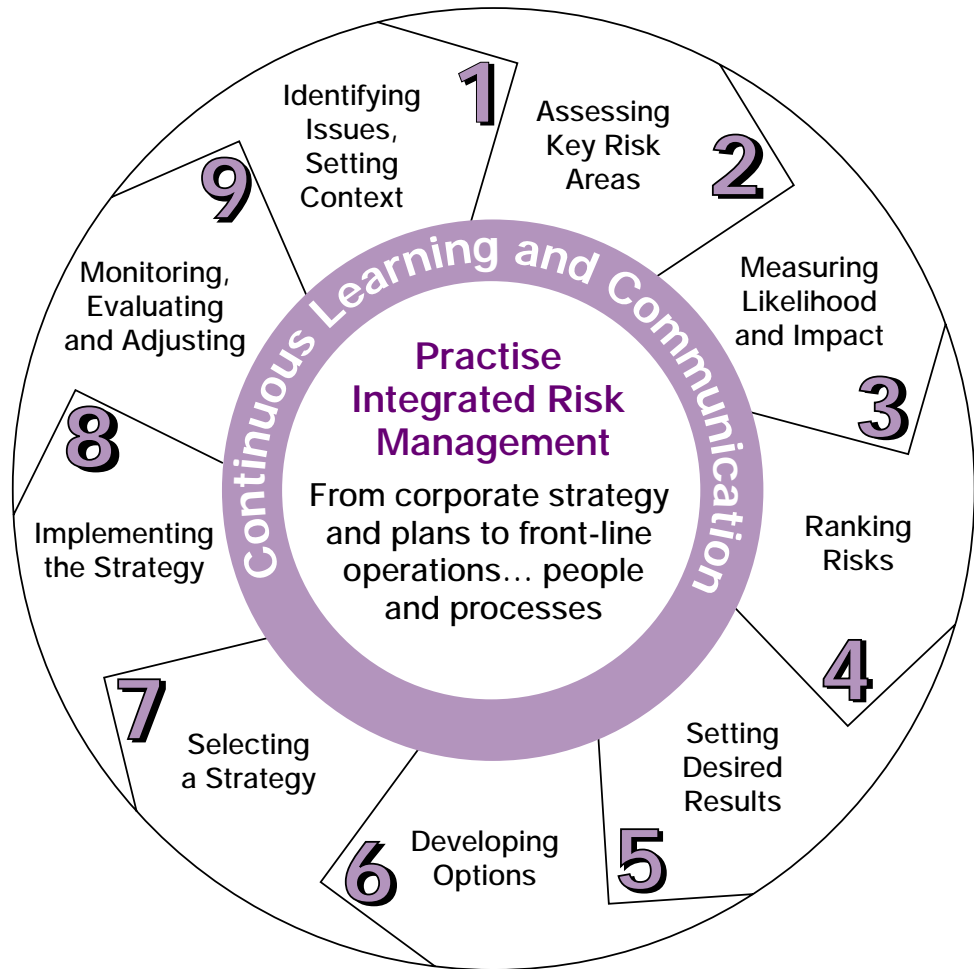
The following outcomes are expected for practising integrated risk management:

- *A departmental risk management process is consistently applied at all levels, where risks are understood, managed and communicated.*
- *Results of risk management practices at all levels are integrated into informed decision-making and priority setting—strategic, operational, management and performance reporting.*
- *Tools and methods are applied as aids to make decisions.*
- *Consultation and communication with stakeholders is ongoing—internal and external.*

A Common Process

A common, continuous risk management process assists an organization in understanding, managing and communicating risk. Continuous risk management has several steps. Emphasis on various points in the process may vary, as may the type, rigour or extent of actions considered, but the basic steps are similar. In the exhibits that follow, Exhibit 1 illustrates an example of a continuous risk management process that focuses on an integrated approach to risk management, while Exhibit 2 presents a risk management decision-making process in the context of public policy.

Exhibit 1: A Common Risk Management Process



Internal and external communication and continuous learning improve understanding and skills for risk management practice at all levels of an organization, from corporate through to front-line operations. The process provides common language, guides decision-making at all levels, and allows organizations to tailor their activities at the local level. Documenting the rationale for arriving at decisions strengthens accountability and demonstrates due diligence.

The common risk management process and related activities are:

Risk Identification

1. Identifying Issues, Setting Context

- Defining the problems or opportunities, scope, context (social, cultural, scientific evidence, etc.) and associated risk issues.
- Deciding on necessary people, expertise, tools and techniques (e.g., scenarios, brainstorming, checklists).
- Performing a stakeholder analysis (determining risk tolerances, stakeholder position, attitudes).

Risk Assessment

2. Assessing Key Risk Areas

- Analyzing context/results of environmental scan and determining types/categories of risk to be addressed, significant organization-wide issues, and vital local issues.

3. Measuring Likelihood and Impact

- Determining degree of exposure, expressed as likelihood and impact, of assessed risks, choosing tools.
- Considering both the empirical/scientific evidence and public context.

4. Ranking Risks

- Ranking risks, considering risk tolerance, using existing or developing new criteria and tools.

Responding to Risk

5. Setting Desired Results

- Defining objectives and expected outcomes for ranked risks, short/long term.

6. Developing Options

- Identifying and analyzing options—ways to minimize threats and maximize opportunities—approaches, tools.

7. Selecting a Strategy

- Choosing a strategy, applying decision criteria—results-oriented, problem/opportunity driven.
- Applying, where appropriate, the precautionary approach/principle as a means of managing risks of serious or irreversible harm in situations of scientific uncertainty.

8. Implementing the Strategy

- Developing and implementing a plan.

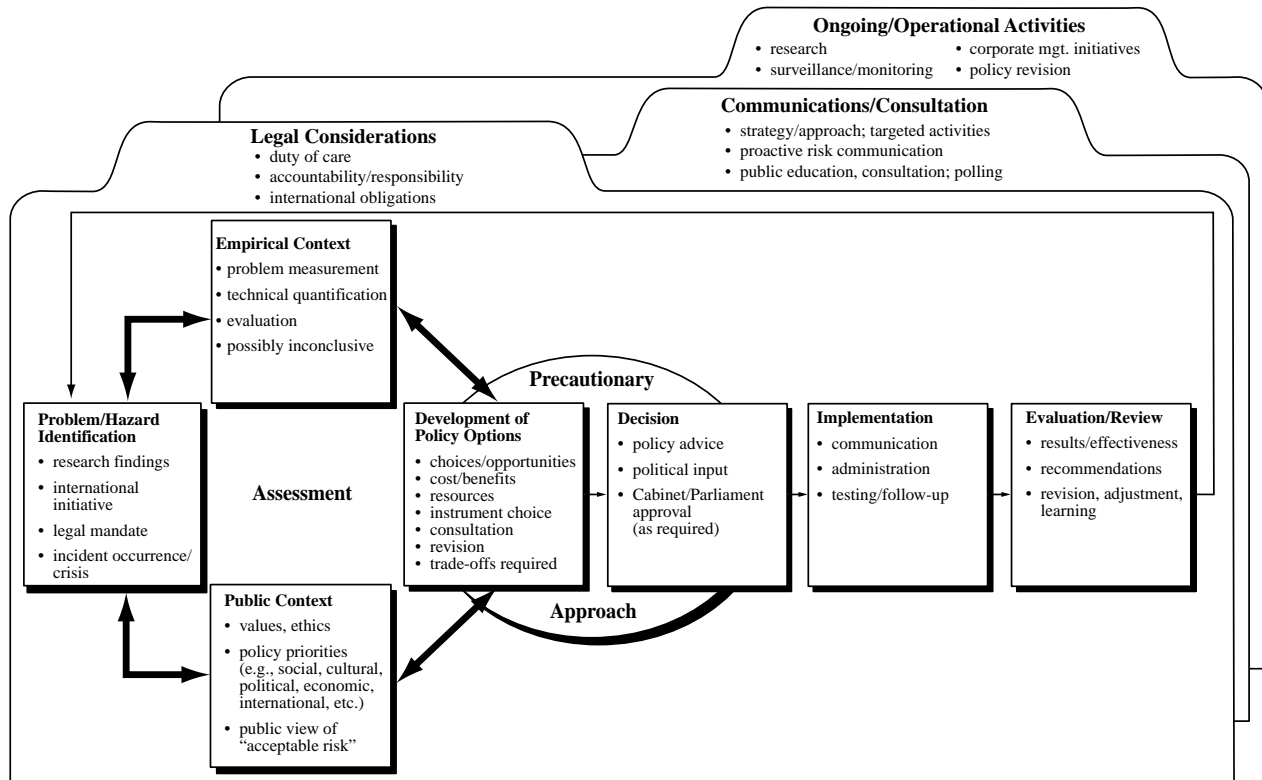
Monitoring and Evaluation

9. Monitoring, Evaluating and Adjusting

- Learning, improving the decision-making/risk management process locally and organization-wide, using effectiveness criteria, reporting on performance and results.

Organizations may vary the basic steps and supporting tasks most suited to achieving common understanding and implementing consistent, efficient and effective risk management. A focused, systematic and integrated approach recognizes that all decisions involve management of risk, whether in routine operations or for major initiatives involving significant resources. It is important that the risk management process be applied at all levels, from the corporate level to programs and major projects to local systems and operations. While the process allows tailoring for different uses, having a consistent approach within an organization assists in aggregating information to deal with risk issues at the corporate level.

Exhibit 2: Risk Management in Public Policy: A Decision-Making Process



Source: *Risk Management for Canada and Canadians: Report of the ADM Working Group on Risk Management (PCO)*, Annex A.

Exhibit 2 presents the model, developed by the PCO-led ADM Working Group on Risk Management, which addresses the issue of risk management in the context of public policy development. This model presents a basis for exploring issues of interest to government policy-makers, and provides a context in which to discuss, examine, and seek out interrelationships between issues associated with public policy decisions in an environment of uncertainty and risk (i.e., a model of public risk management).

As in Exhibit 1, this model recognizes six basic steps: identification of the issue; analysis or assessment of the issue; development of options; decision; implementation of the decision; and evaluation and review of the decision.⁴

4. For further details, refer to the PCO report, *Risk Management for Canada and Canadians: Report of the ADM Working Group on Risk Management* (March 2000).

In this model, several key elements were identified as influencing the public policy environment surrounding risk management:


- ✿ There is a *public element* to virtually all government decision-making, and it is a central and legitimate input to the process.
- ✿ Uncertainty in science, together with competing policy interests (including international obligations) has led to increased focus on the *precautionary approach*.
- ✿ A decision-making process *does not occur in isolation*—the public nature and complexity of many government policy issues means that certain factors, such as communications and consultation activities, legal considerations, and ongoing operational activities, require active consideration at each stage of the process.

Integrating Results for Risk Management into Practices at all Levels

The results of risk management are to be integrated both horizontally and vertically into organizational policies, plans and practices. Horizontally, it is important that results be considered in developing organization-wide policies, plans and priorities. Vertically, functional units, such as branches and divisions, need to incorporate these results into programs and major initiatives.

In practice, the risk assessment and response to risk would be considered in developing local business plans at the activity, division or regional level. These plans would then be considered at the corporate level, and significant risks (horizontal or high-impact risks) would be incorporated into the appropriate corporate business, functional or operational plan.

The responsibility centre providing the advisory and “corporate challenge” functions can add value to this process, since new risks might be identified and new risk management strategies required after the roll-up. There needs to be a synergy between the overall risk management strategy and the local risk management practices of the organization.



Each function or activity would have to be examined from three standpoints:

- ✦ **its purpose:** risk management would look at decision-making, planning, and accountability processes as well as opportunities for innovation;
- ✦ **its level:** different approaches are required based on whether a function or activity is strategic, management or operational; and
- ✦ **the relevant discipline:** the risks involved with technology, finance, human resources, and those regarding legal, scientific, regulatory, and/or health and safety issues.

Tools and Methods

At a technical level, various tools and techniques can be used for managing risk. The following are some examples:

- ✦ **risk maps:** summary charts and diagrams that help organizations identify, discuss, understand and address risks by portraying sources and types of risks and disciplines involved/needed;
- ✦ **modelling tools:** such as scenario analysis and forecasting models to show the range of possibilities and to build scenarios into contingency plans;
- ✦ **framework on the precautionary approach:** a principle-based framework that provides guidance on the precautionary approach in order to improve the predictability, credibility and consistency of its application across the federal government;
- ✦ **qualitative techniques:** such as workshops, questionnaires, and self-assessment to identify and assess risks; and
- ✦ **Internet and organizational Intranets:** promote risk awareness and management by sharing information internally and externally.

Exhibit 3 provides an example of a risk management model. In this model, one can assess where a particular risk falls in terms of likelihood and impact and establish the organizational strategy/response to manage the risk.

Exhibit 3: A Risk Management Model

Impact	Risk Management Actions		
Significant	Considerable management required	Must manage and monitor risks	Extensive management essential
Moderate	Risks may be worth accepting with monitoring	Management effort worthwhile	Management effort required
Minor	Accept risks	Accept, but monitor risks	Manage and monitor risks
	Low	Medium	High
	Likelihood		

In developing methods to provide guidance on risk management, the different levels of readiness and experience in a department, as well as variations in available resources need to be recognized. Therefore, methods need to be flexible and simple using clear language to ensure open channels of communication.

Several practical methods that could be used to provide guidance are:

- ✿ **a managers' forum:** where risks are identified, proposed actions are discussed and best practices are shared;
- ✿ **an internal risk management advisory function:** dedicated to risk management, either as a special unit or associated with an existing functional unit; and
- ✿ **tool kits:** a collection of effective risk management tools such as checklists, questionnaires, best practices.

Communication and Consultation

Communication of risk and consultation with interested parties are essential to supporting sound risk management decisions. In fact, communication and consultation must be considered at every stage of the risk management process.

A fundamental requirement for practising integrated risk management is the development of plans, processes and products through ongoing consultation and communication with stakeholders (both internal and external) who may be involved in or affected by an organization's decisions and actions.

Consultation and proactive citizen engagement will assist in bridging gaps between statistical evidence and perceptions of risk. It is also important that risk communication practices anticipate and respond effectively to public concerns and expectations. A citizen's request for information presents an opportunity to communicate about risk and the management of risk.

In the public sector context, some high-profile risk issues would benefit from proactively involving parliamentarians in particular forums of discussion thus creating opportunities for exchanging different perspectives. In developing public policy, input from both the empirical and public contexts ensures that a more complete range of information is available, therefore, leading to the development of more relevant and effective public policy options. Internally, risk communication promotes action, continuous learning, innovation and teamwork. It can demonstrate how management of a localized risk contributes to the overall achievement of corporate objectives.

Risk communication involves a range of activities, including issue identification and assessment, analysis of the public environment (including stakeholder interests and concerns), development of consultation and communications strategies, message development, working with the media, and monitoring and evaluating the public dialogue. The public sector has the additional responsibility of reporting to and communicating with Parliament.

Within the federal Public Service, it is expected that consultation activities, including those related to risk management, will be undertaken in a manner that is consistent with the *Government Communications Policy*.

Element 4: Ensuring Continuous Risk Management Learning

Continuous learning is fundamental to more informed and proactive decision-making. It contributes to better risk management, strengthens organizational capacity and facilitates integration of risk management into an organizational structure. To ensure continuous risk management learning, pursue the following outcomes:

- *Learning from experience is valued, lessons are shared—a supportive work environment.*
- *Learning plans are built into organization’s risk management practices.*
- *Results of risk management are evaluated to support innovation, capacity building and continuous improvement—individual, team and organization.*
- *Experience and best practices are shared—internally and across government.*

Creating a Supportive Work Environment

A supportive work environment is a key component of continuous learning. Valuing learning from experience, sharing best practices and lessons learned, and embracing innovation and responsible risk-taking characterize an organization with a supportive work environment. An organization with a supportive work environment would be expected to:

Promote learning

- ✿ by fostering an environment that motivates people to learn;
- ✿ by valuing knowledge, new ideas and new relationships as vital aspects of the creativity that leads to innovation; and
- ✿ by including and emphasizing learning in strategic plans.

Learn from experience

- ✿ by valuing experimentation, where opportunities are assessed for benefits and consequences;
- ✿ by sharing learning on past successes and failures; and
- ✿ by using “lessons learned” and “best practices” in planning exercises.

Demonstrate management leadership


- ✿ by selecting leaders who are coaches, teachers and good stewards;
- ✿ by demonstrating commitment and support to employees through the provision of opportunities, resources, and tools; and
- ✿ by making time, allotting resources and measuring success through periodic reviews (e.g., learning audits).

Building Learning Plans in Practices

Since continuous learning contributes significantly to increasing capacity to manage risk, the integration of learning plans into all aspects of risk management is fundamental to building capacity and supporting the strategic direction for managing risk.

As part of a unit’s learning strategy, learning plans provide for the identification of training and development needs of each employee. Effective learning plans, reflecting risk management learning strategies, are linked to both operational and corporate strategies, incorporate opportunities for managers to coach and mentor staff, and address competency gaps (knowledge and skills) for individuals and teams. The inclusion of risk management learning objectives in performance appraisals is a useful approach to support continuous risk management learning.

Supporting Continuous Learning and Innovation



In implementing a continuous learning approach to risk management, it is important to recognize that not all risks can be foreseen or totally avoided. Procedures are paramount to ensure due diligence and to maintain public confidence. Goals will not always be met and innovations will not always lead to expected outcomes. However, if risk management actions are informed and lessons are learned, promotion of a continuous learning approach will create incentives for innovation while still respecting organizational risk tolerances. The critical challenge is to show that risk is being well-managed and that accountability is maintained while recognizing that learning from experience is important for progress.

In addition to demonstrating accountability, transparency and due diligence, proper documentation may also be used as a learning tool. Practising integrated risk management should support innovation, learning, and continuous improvement at the individual, team and organization level.

An organization demonstrates continuous learning with respect to risk management if:

- ✿ an appropriate risk management culture is fostered;
- ✿ learning is linked to risk management strategy at many levels;
- ✿ responsible risk-taking and learning from experience is encouraged and supported;
- ✿ there is considerable information sharing as the basis for decision-making;
- ✿ decision-making includes a range of perspectives including the views of stakeholders, employees and citizens; and
- ✿ input and feedback are actively sought and are the basis for further action.

Conclusion



The Integrated Risk Management Framework advances a more systematic and integrated approach for risk management. By focusing on the importance of risk communication and risk tolerance, it looks outside the organization for the views of Canadians. Internally, it emphasizes the importance of people and leadership and the need for departments and agencies to more clearly define their roles. The Framework provides a tool that helps organizations communicate a vision and objectives for management of risk based on government values and priorities, lessons learned, best practices and consultation with stakeholders.

The Framework is a fundamental part of the federal management agenda and Modern Comptrollership. It is designed to support the optimization of resource allocation and responsible spending, paramount for achieving results. It also builds on public sector values, knowledge management and continuous learning for innovation. The Integrated Risk Management Framework is the first step in establishing the foundation for more strategic and corporate integrated risk management in departments and in government. In the future, the Framework will be supported by tools and guidance documents as well as complemented by other risk management initiatives.

The Treasury Board of Canada Secretariat intends to work closely with departments and agencies in implementing the Integrated Risk Management Framework and in tracking progress toward building a risk-smart workforce and environment in the Public Service.

Appendix: Shared Leadership—Suggested Roles and Responsibilities

In moving toward an integrated risk management function, everyone has a role to play. Combining shared leadership with a team approach will help contribute to the success of integrated risk management throughout the organization. Suggested roles and responsibilities that could be considered by the different parties involved in integrated risk management are outlined below.

Treasury Board of Canada Secretariat

- ✿ communicating and explaining the Integrated Risk Management Framework;
- ✿ providing guidance, training and a centre of expertise in support of the Integrated Risk Management Framework;
- ✿ providing Treasury Board, other central agencies and Parliament with risk management information and advice appropriate to their responsibilities; and
- ✿ periodically examining and evaluating the effectiveness of the Integrated Risk Management Framework, tracking progress and reporting on best practices.

Deputy Heads or Equivalent

- ✿ setting the tone from the top that systematic and integrated risk management is valuable for understanding uncertainty in decision-making and for demonstrating accountability to stakeholders;
- ✿ determining the best way to implement the Integrated Risk Management Framework in their organization;
- ✿ ensuring that a supportive learning environment exists for risk management, including sensible risk taking and learning from experience;
- ✿ ensuring, from a corporate perspective, that risks are prioritized, and that appropriate risk management strategies are in place to respond to identified risks; and
- ✿ ensuring the capacity to report on the performance of the risk management function (i.e., knowing how well the department or agency is managing risk).

Senior Management

- ✿ integrating risk management into overall departmental strategy and management frameworks;
- ✿ providing managers and employees with learning opportunities and training to build competencies; and
- ✿ allocating resources for investment in more systematic risk management.

Managers

- ✿ considering risk as a part of their decision-making process; and
- ✿ ensuring there is appropriate ongoing operational and corporate-related risk management action, planning, training, control, monitoring and documentation.

Functional Advisors and Specialists

- ✿ ensuring that policy and related advice, guidance and assistance is in line with central agency and departmental policies on risk management and senior management's objectives;
- ✿ helping managers identify and assess risk and the effectiveness, efficiency and economy of existing measures to manage risk; and
- ✿ helping managers design and implement tools for more effective risk management.

Review, Internal Audit

- ✿ reporting to the Deputy Head on the department's or agency's performance under the Integrated Risk Management Framework.

All Public Servants

- ✿ staying aware of and attentive to risk management issues;
- ✿ risk-smart behaviours and outcomes—considering limitations, key risk areas and fundamental rules to understand risks they can and cannot take (i.e., understanding where there is allowance for honest mistakes and where prudence is paramount); and
- ✿ documenting decisions and supporting information.