Industry and Resources

10

Main points

The Department of Industry and Resources faces many strategic risks that could influence its ability to meet its objectives.

We assessed the adequacy of the Department's planning processes as of December 31, 2004 to identify strategic risks to achieving its objectives. Overall, the Department had adequate planning processes to identify strategic risks except as reflected in our recommendations.

We recommend the Department improve its processes to identify strategic risks and in particular:

- use systematic processes to detect risks to all of its objectives
- quantify the likelihood and impact of strategic risks to identify priorities

Strengthening the Department's processes to identify strategic risks would help the Department take timely action to manage its most important risks. It would also help the Department to take full advantage of opportunities.

Introduction

The mandate of the Department of Industry and Resources (Department) is to co-ordinate, develop, promote, and implement policies and programs relating to: [1]

- exploring for and developing, managing, and conserving non-renewable resources [2]
- developing, managing, and conserving energy
- encouraging the growth and expansion of the Saskatchewan economy

The Department collects revenues from the production and sale of resources, the sale of Crown mineral rights, and other taxes, services, and fees. These revenues help to support a wide range of government services. Risks that reduce revenues could have a government-wide impact. In 2003-2004, the Department collected revenue of $1,157 million and incurred expenses totalling $71 million.

The Department's mandate is challenging. The mandate focuses on developing resources and supporting a sustainable economy. The Department must balance its economic development goals with conservation and protection of the environment.

To achieve its mandate, the Department works externally with a wide range of partners in an international business environment that is subject to rapid change. The Department's mandate has changed twice between 2002 and 2005. Like other agencies, it has an aging workforce. These are examples of the Department's many strategic risks.

Strategic risk is the possibility of events or circumstances having an impact on objectives. Strategic risks could bring new opportunities or adversely affect the achievement of an agency's objectives. The purpose of the work reported here is to help strengthen the Department's capacity to identify its strategic risks, particularly during its planning processes.

[1] *The Department of Industry and Resources Regulations, 2005*.
[2] Non-renewable resources include uranium and potash; energy includes oil and gas.

Identifying risks—audit objective and criteria

Most public agencies use planning processes to achieve their mandate efficiently. Integrating risk identification into planning processes can help agencies achieve their strategic objectives.

The Government uses an Accountability Framework to guide planning, managing, and reporting practices in departments and some other agencies. The Framework includes identifying risks. In 2004, the Department of Finance expected agencies' annual reports to disclose the impact of risks on their performance. For 2006-07, it expects agencies' performance plans will explain major risks.

The objective of this audit was to assess whether the Department of Industry and Resources had adequate planning processes as of December 31, 2004 to identify strategic risks to achieving its objectives.

Criteria help assess the adequacy of processes used by management. We based the audit criteria on the Australia-New Zealand Standards for Risk Management and other selected references. We discussed the criteria with the Department. The Department agreed with the criteria.

To have adequate planning processes to identify strategic risks to its objectives, the Department should:

1. Detect risks
2. Assess risks (likelihood and consequences)
3. Evaluate risks (ability to influence, strategic priorities)

Audit conclusions and recommendations

As of December 31, 2004, the Department had adequate planning processes to identify strategic risks to its objectives except as reflected in the following recommendations.

1. We recommend the Department of Industry and Resources use systematic processes to detect risks to all its objectives.

2. We recommend the Department of Industry and Resources quantify the likelihood and impact of strategic risks to identify priorities.

Audit findings—processes to identify strategic risks

To conduct our audit we followed the *Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants. For each of our criteria, we describe our detailed findings. We set out what we expected in italics, followed by what we found.

Detect risks

We expected the Department to have planning processes that detect risks broadly and in consultation with key stakeholders. We anticipated the Department would identify causes of significant risks. We expected the Department to assign responsibility to ensure the Department considers all types of risk and documents risks to every objective.

The Department uses an environmental scan to detect risks broadly. The Department frequently communicates informally with its stakeholders. It also consults stakeholders more formally to detect risks. For example, in January 2005, the Department hosted a national summit. The summit explored opportunities and risks with stakeholders interested in economic development in Saskatchewan.

Risk detection in the Department most often occurs within divisions at the program level. To detect risks, the staff consults with industry experts and other stakeholders. They analyze information and monitor trade journals. Managers receive routine verbal updates about detected risks.

In addition, some divisions of the Department periodically perform a detailed review to detect risks and opportunities. For example, the minerals sector recorded an overview of the industry in 1997 and 2003. The overview included the causes of significant risks related to mining minerals in Saskatchewan. Other divisions regularly update their analysis of risks on a more informal basis.

The Department updates some parts of its environmental scan during annual planning activities. For example, the Department invites all its divisions to contribute to the “Trends and Issues” section of the performance plan. It does not provide guidance to ensure all its divisions detect a wide range of risks (e.g., external and internal risks).

The Department’s 2004 environmental scan focused on external risks (e.g., abandoned oil and gas wells, mining technology). It did not highlight internal strategic risks (e.g., human resources, information technology). The Department reports some internal risks in separate documents such as its Human Resource Plan.

The Department has not formally assigned an individual, division, or committee to coordinate the systematic detection of all types of risks across all its objectives. Without a systematic process, the Department may overlook important risks or opportunities.

Assess risks

We expected the Department to have planning processes to estimate the likelihood and impact of risks and opportunities. We expected the Department to confirm with key stakeholders the most likely and severe risks to its objectives.

The Department's program staff assesses the likelihood and extent of impact of some risks. The Department uses its own experts, past records, and industry practices to estimate the likelihood of risks on a periodic basis. The Department does not have a systematic process to quantify the likelihood and impact of its strategic risks.

The Department has similar processes to estimate the extent to which it can benefit from some of its opportunities. For example, the Department has quarterly forecasts for revenue from the minerals sector. The forecasts show the Department assesses the likelihood of achieving expected revenue. It also assesses the severity of impact if the Department does not act on opportunities.

The Department sometimes involves stakeholders or external experts to help it assess risks. For example, a Diamond Steering Committee and its sub-committees analyze risks related to diamond mining in Saskatchewan. The Department occasionally hires consultants to evaluate the severity of consequences for important strategic risks.

The Department sometimes confirms with key stakeholders whether its risks are likely or could have significant impact. Key stakeholders have industry-specific information that helps the Department assess the strategic risks and opportunities it faces.

Evaluate risks

We expected the Department to have planning processes to evaluate its ability to influence risks and identify priority risks and opportunities across the Department.

The Department evaluates risks and opportunities at a program level. Some of the Department's programs have processes to evaluate their ability to influence risks. Other program areas focus on evaluating how to influence opportunities.

For example, in early 2005, the Department decided it could influence its risk of missed opportunities for the expansion of potash mines by implementing a ten-year tax holiday. The Department estimates this change will bring millions in capital investment and provide more than 200 jobs in the potash industry.

The Department uses its annual budget process to prioritize opportunities. The Department prioritizes initiatives that require additional resources in the next year. In 2004-05, these initiatives included some of the Department's strategic opportunities.

The Department does not have other formal processes to evaluate strategic risk priorities. The Executive Management Committee discusses topics of concern to industry but less often addresses risks in the context of the Department's objectives. The Committee does not keep a record of risks reported to it, and does not prioritize risks.

Formalizing the Department's processes to evaluate strategic risks would make the process more consistent across the Department's divisions. For example, the Department could provide guidelines to help all divisions evaluate risks and identify priority strategic risks to its objectives. Regularly updating the documented priorities would help the Department take timely action to manage its most important risks and opportunities.

Next steps

The Department faces change and uncertainty while striving for operating efficiency. Regular processes to identify its strategic risks would help the Department to exploit opportunities and adapt to unexpected events while carrying out its mandate.

The Department told us it plans to improve how it identifies strategic risks. We will monitor the Department's processes to detect, assess, and evaluate strategic risks.

Selected references

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