

Agricultural and Rural Development

Summary

Department

The Department of Agriculture and Rural Development should improve its risk management processes—see next column.

The Department of Agriculture and Rural Development has implemented our October 2001 recommendation to evaluate the success of its grant programs in meeting Ministry goals—see page 86.

Agriculture Financial Services Corporation

Agriculture Financial Services Corporation has:

- implemented our November 2011 recommendation to ensure its key lending controls operate as designed by testing them and demonstrating they are functioning—see page 87
- implemented our October 2010 recommendation to improve its processes for conducting compliance audits and investigations—see page 87
- implemented our October 2009 recommendation to design and implement integrated business and IT risk assessment and IT control frameworks—see page 88

Alberta Livestock and Meat Agency Ltd.

Alberta Livestock and Meat Agency Ltd. has:

- implemented our November 2011 recommendation to improve its risk management processes—see page 89
- implemented our November 2011 recommendation to ensure compliance with its contracting procedures—see page 89

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 159.

Findings and recommendations

Department

Matters from the current audit

Enterprise risk management

Background

Enterprise risk management is a continuous, proactive process to understand, manage and communicate risk from an organization-wide perspective. Risk management involves assessing the risk of uncertain outcomes, ranking them based on likelihood and potential impact to the organization, and then implementing appropriate responses to mitigate significant identified risks.

A risk assessment should consider industry and regulatory factors, applicable laws and regulations, economic indicators, industry trends, business relationships and fraud and error.

Recommendation: Enterprise risk management

12 RECOMMENDATION

We recommend that the Department of Agriculture and Rural Development improve its risk management processes.

Agricultural and Rural Development

Criteria: the standards for our audit

A formal risk assessment should be documented and updated regularly.

Effective risk management should include:

- clearly defining roles and responsibilities for risk management
- identifying and documenting the risks associated with achieving the entity's objectives
- assessing and ranking risks, including the likelihood and potential impact of specified risks
- developing and implementing programs or procedures to mitigate risks
- updating risk assessment as changes occur
- monitoring and evaluating risks and the steps take to mitigate them
- reporting the risks and actions to senior management

Our audit findings**Key findings**

The Department is developing a formal risk management framework to replace its current informal process.

We observed the Department's process to identify and report on risks has been informal, as risks become apparent or as needs arise.

While the Department has various processes to address risks, risk management is more effective if completed in one cohesive process. This would allow senior management to better rank responses to risks and see the interrelationships among risks.

Management is developing a formal framework to better identify and manage risk at a divisional, sector and executive team level. This framework will consider the principles and guidelines in ISO 31000 *Risk Management*, which is used for similar risk assessment processes elsewhere in government.

A more comprehensive, formal risk management process will help the Department determine if it has adequate controls and processes to mitigate risk.

Implications and risks if recommendation not implemented

Without a formal process to identify and manage risk, the Department may not mitigate all significant risks and may focus resources on less significant issues.

Matters from prior-year audits
Grant programs—implemented**Background**

The Department has implemented our *October 2001 Report* (no. 3—page 50) recommendation to evaluate the success of its grant programs in meeting Ministry goals.

Our audit findings

In our *October 2009 Report* (page 165), we noted the Department had implemented parts of the recommendation related to post-completion evaluations for individual grants awarded and monitoring of program outcomes for individual's grants.

In our *November 2011 Report* (page 74), we noted the Department developed a grant management system, formalized a plan to periodically review the grant programs and assess them against the Department's strategic objectives, and developed a new reporting framework to link quantifiable performance measures and targets to grant programs.

In 2012, the Department:

- applied the framework to the Growing Forward Grant Program Evaluation Project and Irrigation Rehabilitation Program—This demonstrated the effectiveness of the framework to link performance measures and targets to grant programs.
- initiated a program and project development plan for the upcoming Growing Forward 2 program, using the results of the Growing Forward Evaluation Project—The plan will develop quantifiable performance measures and targets to be applied at the outset of the new grant program. Completion of the establishment of quantifiable performance measures and targets is expected by August 2012.
- proposed to evaluate all the Department's pre-existing grant programs using the framework within a reasonable period

The Department has demonstrated the implementation of a grant framework which addresses the entire grant cycle through the application on two existing programs as well as on the development of performance indicators for the Growing Forward 2 agreement.

Agriculture Financial Services Corporation

Matters from the current audit

There are no new recommendations.

Matters from prior-year audits

Lending controls—implemented

Background

Agriculture Financial Services Corporation (AFSC) has implemented our *November 2011 Report* (no. 8—page 74) recommendation to ensure its key lending controls operate as designed by testing them and demonstrating they are functioning.

Our audit findings

We tested a sample of newly approved loans, which included farm and commercial loans from throughout the province. AFSC's application of key lending controls on loan disbursements, file administration or loan file reviews was operating effectively. We found that loan offer letters were appropriately documented and signed before AFSC disbursed any funds. AFSC also completed an independent review of loan applications to ensure compliance with loan eligibility, policy and procedures.

Cross compliance review—implemented

AFSC has implemented our October 2010 Report (no. 12—page 124) recommendation to improve its processes for conducting compliance audits and investigations by:

- clearly defining the roles and responsibilities of the Program Cross Compliance and Investigations (PCCI) group
- improving the coordination between PCCI and program areas

Our audit findings

In 2011, AFSC developed several policies to establish a framework for conducting compliance audits and investigations. In 2012, we tested the operating effectiveness of these policies and noted the PCCI group:

- developed and consistently applied specific risk assessment criteria to determine whether an investigation was warranted. If a preliminary review identifies issues, AFSC places a hold on all program claims across all business lines, until the investigation is completed.
- summarizes the results and reason for the investigation, work performed, primary file issues and indentified overpayments. The summary also identifies internal control weaknesses and recommendations to improve program areas.
- met regularly with program management staff and internal legal counsel to report and discuss findings and appropriate courses of action. This has resulted in better coordination and sharing of information between program areas in AFSC.
- submit monthly and year-end reports to the Vice-President, Risk Management Services. The reports highlight the status of examinations and investigations that PCCI conducted as well as issues that remain unresolved.

IT risk assessment and control framework—implemented

Background

AFSC has implemented our *October 2009 Report* (page 168) recommendation to design and implement an:

- integrated business and IT risk assessment framework to identify and assess IT risks to the corporation
- IT control framework with defined controls to mitigate the identified IT risks

Our audit findings

In 2012, AFSC continued to improve its practices to manage risks in its IT environment. AFSC has updated its IT risks to align with its enterprise business risks, and has documented them in a risk register. Risks are ranked by likelihood and business impact and assigned a criticality level (high, medium, low).

AFSC has also developed an IT control framework to mitigate identified IT risks. The IT control framework is based on internationally recognized IT security and control standards that include ISO 27002 and COBIT. The framework covers critical IT control areas such as governance, IT security, change management and access management.

Alberta Livestock and Meat Agency Ltd.

Matters from prior-year audits

Risk management processes—implemented

The Alberta Livestock and Meat Agency Ltd. has implemented our *November 2011 Report* (no. 10—page 78) recommendation to improve its risk management processes.

Our audit findings

We observed that the Agency has developed a comprehensive enterprise risk management process that assesses the risk of uncertain outcomes, ranks them based on likelihood and potential impact to the organization, and develops responses to mitigate significant identified risks. The risk assessment considered industry and regulatory factors, environmental laws and regulations, economic indicators, industry trends, business relationships, fraud and error, and was reviewed and updated quarterly to ensure current risks were prioritized.

Signing of service contracts—implemented

The Agency has implemented our *November 2011 Report* (no. 11—page 79) recommendation to ensure compliance with its contracting procedures.

Our audit findings

We observed, on a sample of contracts, that the appropriate expenditure officer and contractor signed service contracts before work began, in accordance with the Agency's purchasing policies. This ensured that the Agency and the contractor agreed to the terms and conditions of the services the contractor would provide, before the work began.

