

## B.C. Enterprise Risk Categories Tool

March 2022



## Purpose

An effective Enterprise Risk Management (ERM) program drives value within an organization. By understanding current and evolving threats and opportunities that exist, critical decisions can be validated using the best available information.

A critical step of any risk assessment is risk identification. In ERM, all threats and opportunities facing the organization are considered and extensively explored. By doing a comprehensive search, risk exposure is identified and can be further analyzed and adequately managed within the organization's risk tolerance.

This Risk Categories Tool provides a framework for B.C. Public Sector Organizations to identify and categorize risk within their ERM Programs. The Risk Management Branch and Government Security Office (RMB) has collaborated with government central agencies and researched industry best practice to formulate various risk categories to consider when identifying risk. Please note that this list of categories is NOT EXHAUSTIVE but rather a general collection of risk areas to inspire risk exploration. We encourage users to contemplate any risk event that could have a positive or negative impact on business objectives and implement actions to manage these risks to reduce negative impacts and realize opportunities.

## Contacts and Additional Resources

RMB is the central risk management agency within the B.C. Government. RMB formulates policy, provides risk management advice and guidance across the provincial public sector, and develops and delivers comprehensive, innovative risk management programs that reduce risk for the Province.

### Contact Information

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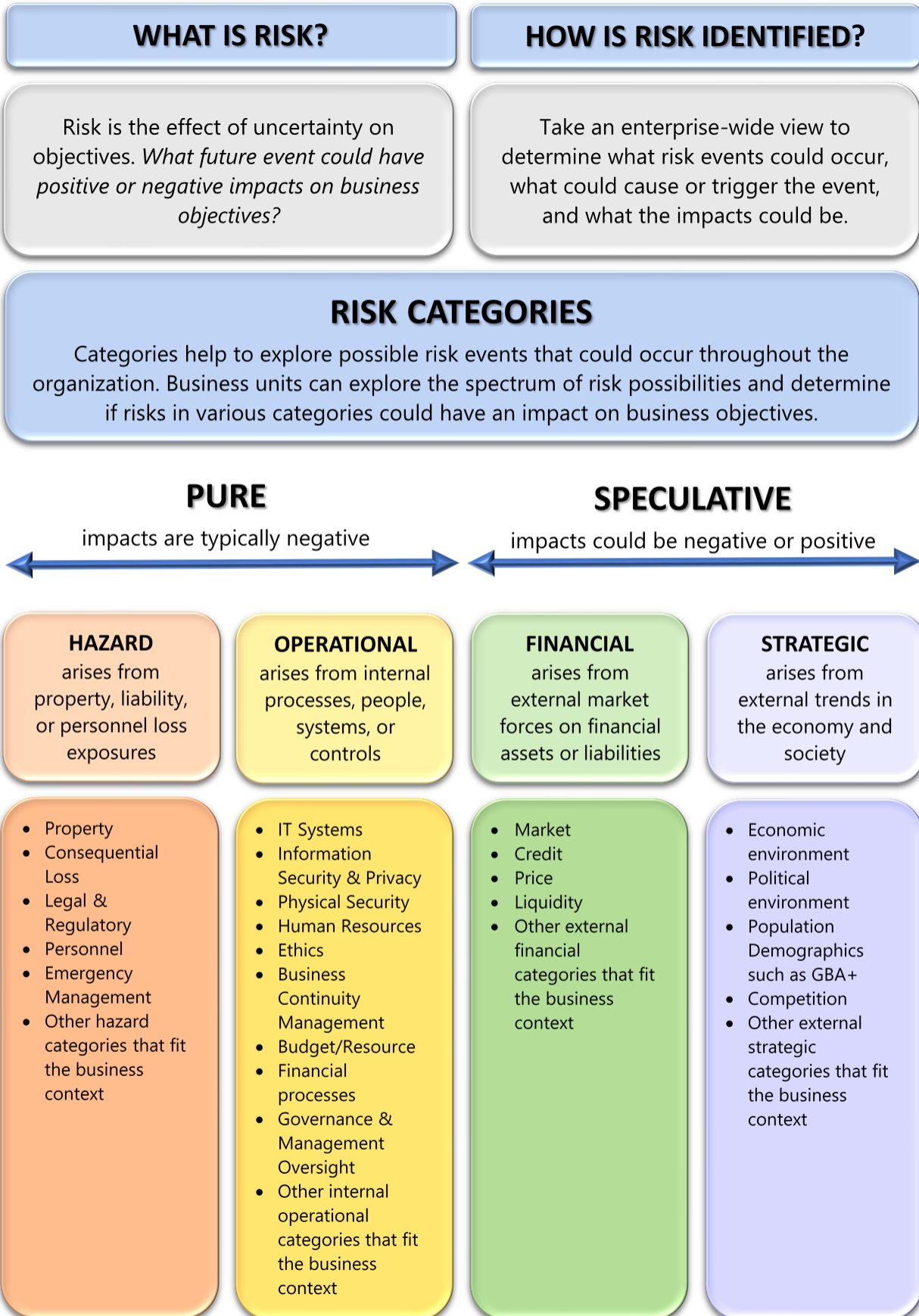
RMB Enterprise Risk Management Internet Site (public facing)

- <https://www2.gov.bc.ca/gov/content/governments/organizational-structure/ministries-organizations/central-government-agencies/government-chief-risk-office>

RMB Enterprise Risk Management Intranet Site (internal to government ministries)

- <http://gww.fin.gov.bc.ca/gws/pt/rmb/er.stm> (scroll to ERM in the B.C. Public Service)

## Risk Categories at a Glance



## Risk Categories Defined

<b>Hazard:</b> arises from property, liability, or personnel loss exposures Impacts are typically negative	SUB-CATEGORY	RISK EVENT EXAMPLES
	<b>Property:</b> Loss or damage to an asset arising from a peril (i.e., natural and human), depreciation or from obsolescence over time. Property can be real property which is immovable (land and property e.g., a building) and personal property which is movable (all property that is not real property e.g., a piece of furniture). Personal property includes both tangible and intangible (cannot be touched physically) property <i>* Source: B.C. Risk Management Branch and Government Security Office (RMB)</i> <i>** RMB can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>Natural perils such as wildfire, lightning, flood, storm or earthquake</li> <li>Human perils such as accidents or criminal acts like theft or arson</li> <li>Depreciation includes wear and tear from use, aging, etc.</li> <li>Obsolescence (a type of economic peril) includes items no longer needed or outdated</li> <li>inadequate financing for property losses</li> </ul>
	<b>Consequential Loss:</b> A loss that arises as a result of direct damage to property. Some types of consequential loss are insurable under standard direct damage or time element coverage forms; others are not <i>* Source: International Risk Management Institute (IRMI)</i> <i>** RMB can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>Loss of rent after a property is damaged and requires repair or replacement</li> <li>Additional costs that occur when a property or asset is unusable after being damaged, stolen or destroyed</li> <li>Uncollectable revenues or damages to a process due to a system outage</li> </ul>
	<b>Legal and Regulatory:</b> Financial consequences of legal actions against an organization for causing damages or noncompliance with statutes and regulations. Legal systems and regulatory requirements vary from one jurisdiction to another <i>* Source: Risk Assessment and Treatment, 1<sup>st</sup> Edition, The Institutes, p.6.3</i> <i>** RMB can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>B.C. Government Administrative Penalties under the Environmental Management Act</li> <li>Non-compliance to regulatory bodies or legislation leading to fines and/or penalties</li> <li>Breach of contract</li> <li>Causing damage, injury or death to a third party while conducting business</li> </ul>
	<b>Personnel:</b> Losses arising from the death, injury, disability, or departure of employees <i>* Source: Insurance Risk Management Institute (IRMI)</i> <i>** RMB can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>Cost of benefits mandated by WorkSafeBC under the BC Workers' Compensation Act</li> <li>Costs to replace a key employee who has died or becomes disabled</li> <li>Events that may impact employee health and safety including mental health</li> </ul>
	<b>Emergency Management:</b> The potential for a lack of coordinated approach or understanding of hazard risks and the impact of potential losses; mitigating their adverse effects; preparing to respond to them to ensure continuity of key operations and to minimize the impacts to health, safety or well-being of persons, objects or sites of heritage value or property; and recovering conditions to either an acceptable or improved level <i>* Source: Emergency Management BC (EMBC)</i> <i>** EMBC can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>Massive disruption impacting multiple organizations or a geographical location including government stakeholders. Could be a natural disaster, a communicable disease or public uprising</li> <li>Failure to mitigate known vulnerabilities to hazards leading to facility damage e.g. flood, fire, equipment malfunction</li> <li>Lack of understanding how the organization fits into the provincial plan for disasters</li> <li>No plan in place to recover from a catastrophic event for the org and for the stakeholders it supports</li> </ul>

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<b>Operational:</b> arises from internal processes, people, systems, or controls Impacts are typically negative	SUB-CATEGORY	RISK EVENT EXAMPLES
	<b>IT Systems:</b> Issues arising from in-effective approaches to managing and implementing technology, including the planning, building, running and monitoring of IT systems <i>* Source: B.C. Internal Audit and Advisory Services (IAAS)</i> <i>** Information System Branches can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>IT system goes down for an unacceptable amount of time</li> <li>IT system projects fail</li> <li>Cost over-runs</li> <li>A massive technology disruption occurs and there is no effective Disaster Recovery Plan in place</li> </ul>
	<b>Information Security and Privacy:</b> Vulnerabilities in policy, technology, or processes that may lead to information security and privacy breach incidents <i>* Source: B.C. Corporate Information and Records Management Office (CIRMO)</i> <i>** Information Security Officers and Privacy Officers can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>Information security management failure</li> <li>Lack of management to ensure security and privacy requirements are met for the collection, use, disclosure, storage or access of data including a completed privacy impact assessment and using appropriate privacy and security schedules in contracts</li> <li>Practices not used to ensure users have information controls in accordance with their business requirements</li> <li>Practices not used to protect information systems and technology from cyber attacks</li> </ul>
	<b>Physical Security:</b> Vulnerabilities in processes that are used to safeguard assets and personnel and prevent unauthorized access to equipment, facilities, material and documents <i>* Source: B.C. Risk Management Branch and Government Security Office (RMB)</i> <i>** Security Officers can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>Violence towards public service employees</li> <li>Espionage, sabotage, damage and theft</li> <li>Interruption of operations due to a security breach</li> <li>Insufficient security to restrict access resulting in theft, damage or misappropriation</li> </ul>
	<b>Human resources:</b> Issues arising from employee activities that include hiring practices, training, succession planning, diversity and inclusion initiatives, and other strategic HR initiatives <i>*Source: B.C. Public Service Agency</i> <i>** Human Resources Branches can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>Inability to hire required skill in key positions leaving leadership and service gaps</li> <li>Merit principle is not applied to hiring processes resulting in a lack of the required skills employed</li> <li>Discrimination and/or bullying occurs within the work environment</li> <li>Volunteers are added to a program without the proper considerations including health and safety, supervision, liability, union matters etc.</li> </ul>
	<b>Ethics:</b> The potential harm resulting from employee behaviour or conduct that contravenes the organization's Oath of Employment or Standards of Conduct. The harms may be real or perceived in nature and may affect the reputation or operations of the organization or the B.C. Government in a negative way <i>* Source: B.C. Corporate Ethics Program</i> <i>** The B.C. Corporate Ethics Program can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>Program may be based on an algorithm that is unintentionally biased, negatively impacting certain citizens (e.g., region, race, gender). This not only poses a risk to citizens, but to the reputation of the ministry / B.C. Public Service</li> <li>Organizational pressure may result in getting employees to work without proper onboarding and training. The risk is that employees are not aware of the expectations for behaviour / conduct in the ministry</li> <li>Team members working on a Request for Qualifications (RFQ) procurement may access information in the internal files and records that may not relate to the RFQ process. This could constitute a privacy breach, contravene the procurement process and practice outlined in the CPPM, and impact the vendor financially</li> </ul>

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<b>Operational (continued):</b> arises from internal processes, people, systems, or controls - Impacts are typically negative	SUB-CATEGORY	RISK EVENT EXAMPLES
	<b>Business Continuity Management:</b> Ineffective creation and maintenance of Business Continuity Plans (BCPs) that contain the recovery procedures and strategies necessary to resume critical services which are activated when standard operational procedures and responses are overwhelmed by a disruptive event. While Emergency Management (see Hazard Category) focuses on event containment and response, Business Continuity focuses on the resumption of critical services until a return to normal business operations is possible <i>* Source: Core Policy and Procedures Manual Chapter 16: Business Continuity Management</i> <i>** Business Continuity Advisors can assist in plan creation and exercising</i>	<ul style="list-style-type: none"> <li>• BCP doesn't account for wide-spread disaster scenarios that render the workplace, internet, transportation routes etc. unusable.</li> <li>• Major business disruption that causes evacuation of a workplace or an outage of a critical system or service</li> <li>• Effective and tested BCPs are not in place or obsolete</li> <li>• No person has accountability for maintaining the BCP and over time people forget it exists or don't know where to find it.</li> </ul>
	<b>Budgets &amp; Resources:</b> The potential for assumptions and estimates built into a program or project budget to be inaccurate resulting in resource control issues <i>* Source: <a href="https://simplicable.com/new/budget-risk">https://simplicable.com/new/budget-risk</a></i> <i>** Financial Branches can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>• Critical costs not worked into a program or project budget</li> <li>• Not gaining the appropriate budget approval to proceed effectively</li> <li>• Not acquiring the right assets to implement program or project activities resulting in unmet objectives</li> <li>• Critical resources are cut or reduced without notice</li> </ul>
	<b>Financial Processes:</b> Issues arising from activities related to government's financial management and controls systems <i>* Source: B.C. Office of the Comptroller General</i> <i>** Financial Branches can assist in exploring risk in more detail</i>	<ul style="list-style-type: none"> <li>• Core Policy and Procedures are not followed</li> <li>• Controls are not widely understood or implemented to enable compliance</li> <li>• Inappropriate use of financial information or funding either through internal or external sources</li> <li>• Improper expense authority or approval limits provided or overlooked</li> <li>• Financial misstatements</li> </ul>
	<b>Governance &amp; Management Oversight:</b> Lack of effective and efficient decision-making and leadership structures throughout the organization that is critical to project, program, and overall mandate success <i>* Source: B.C. Risk Management Branch and Government Security Office (RMB)</i>	<ul style="list-style-type: none"> <li>• Governance for an initiative is not finalized causing priority confusion and delays</li> <li>• Ineffective decision-making leading to critical milestones being missed</li> <li>• Confusion over accountability and/or roles and responsibilities</li> <li>• Choosing the wrong business model and setting programs or projects up for failure</li> <li>• Unclear direction or ineffective policies and procedures</li> </ul>

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<b>Financial:</b> arises from external market forces on financial assets or liabilities Impacts could be negative or positive	SUB-CATEGORY	RISK EVENT EXAMPLES
	<b>Market:</b> The potential for the value of an investment or a portfolio of investments will decrease or increase due to change in the market for that investment <i>* Source: Risk Financing, 6 Edition, The Institutes, p. 9.3</i>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• Coronavirus crash (TBC) of 2020</li> <li>• Financial crisis (like in 2007)</li> <li>• Rising real estate values making housing affordability unattainable for many B.C. families and BCPS employees</li> </ul> <b>Opportunities:</b> <ul style="list-style-type: none"> <li>• Venture capital investments that support B.C. small businesses are professionally managed and providing relatively stable returns</li> </ul>
	<b>Credit:</b> Uncertainty about a party who is obligated to pay money per a binding agreement. The uncertainty concerns whether the party will actually pay all the money it owes and pay it on time <i>* Source: Risk Financing, 6 Edition, The Institutes, p. 9.4</i>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• A lender's failure to detect credit risk resulting in the default and lost funds</li> <li>• Unpaid fees due to a party's default</li> </ul> <b>Opportunities:</b> <ul style="list-style-type: none"> <li>• Ability to encourage and regulate activity in markets that face risks with the right amount of security to cover costs should issues arise</li> </ul>
	<b>Price:</b> The potential for a change in revenue or cost because of an increase or decrease in the price of an item or product <i>* Source: Risk Financing, 6 Edition, The Institutes, p. 9.5</i>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• Retail market changes and product retail manufacturer does not adjust.</li> <li>• Significant construction material price increases</li> <li>• Prolonged supply chain interruptions</li> </ul> <b>Opportunities:</b> <ul style="list-style-type: none"> <li>• Identifying programs that can help B.C. sectors be market ready for when commodity prices are ideal in the global market (e.g., natural resources)</li> </ul>
	<b>Liquidity:</b> The potential for a change in the amount of cash or other assets that can be converted to cash and maintain a value should there be an immediate demand for cash <i>* Source: Risk Financing, 6 Edition, The Institutes, p. 9.4</i>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• Inadequate savings in bank account to cover unexpected losses</li> <li>• Inadequate security required to cover actual loss or default</li> </ul> <b>Opportunities:</b> <ul style="list-style-type: none"> <li>• Awareness of liquidity limitations for businesses could lead to incentive programs to bolster hard hit sectors at the appropriate times</li> </ul>



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<b>Strategic:</b> arises from external trends in the economy and society Impacts could be negative or positive	SUB-CATEGORY	RISK EVENT EXAMPLES
	<b>Economic Environment:</b> Changes to the market conditions, such as price levels, interest rates, the general economy or change in consumer preferences. They can generate prosperity for those whom they favour but threaten unemployment and recession for other as well as increase or decrease the value of property. <i>* Source: Risk Assessment and Treatment 1<sup>st</sup> Edition, The Institutes, p. 4.13</i>	<b>Threats:</b> <ul style="list-style-type: none"> <li>Strategic mandates, policy and programs that do not accurately reflect the economic environment, particularly when fast unforeseen events occur</li> <li>Rapidly rising cost of living causes low-income families to lose homes</li> <li>Climate change and the impacts on the economy</li> <li>Trade markets and the impacts on B.C. businesses</li> <li>Natural disasters triggering market fluctuations or interrupt supply chains</li> </ul> <b>Opportunities:</b> <ul style="list-style-type: none"> <li>Revitalized strategic priorities that consider the most relevant economic information available and anticipate program and project needs</li> </ul>
	<b>Political Environment:</b> Any action by another government that favours domestic over foreign organizations or poses a threat to foreign organizations <i>* Source: Risk Management Principles and Practices, 1<sup>st</sup> Edition, The Institutes, p. 4.34</i>	<b>Threats:</b> <ul style="list-style-type: none"> <li>A foreign government introduces tariffs favouring domestic industries impacting B.C. exports</li> <li>Trade agreements that could cause barriers to B.C. commodities crossing borders</li> <li>Change of Federal, Provincial and/or Municipal governments causing disruption or slow-down due to changing priorities</li> </ul> <b>Opportunities:</b> <ul style="list-style-type: none"> <li>A new foreign government introducing new mandates that align with domestic policy</li> </ul>
	<b>Population Demographics including GBA+:</b> The statistical characteristics of human populations (such as gender, race, sexual orientation, disability, etc.) and including the differential impacts to these populations into considerations when policies, programs and legislation are developed <i>*Source: B.C. Gender Equity Office</i> <i>** The B.C. Gender Equity Office can assist in exploring risk in more detail</i>	<b>Threats:</b> <ul style="list-style-type: none"> <li>Government programs and services that both do not accurately respond to reflect the differential needs of various populations and can also result in inequitable impacts for these populations (e.g., racialized women experience greater disparities in regard to gender wage gaps compared to non-racialized women)</li> </ul> <b>Opportunities:</b> <ul style="list-style-type: none"> <li>Programs and policy that accurately reflects the demographics of the target social outcome (e.g. leveraging the skilled workforce that face fixable barriers to participating in the labour market)</li> </ul>
	<b>Competition:</b> The potential for impacts to various sectors' (exports, imports, tourism, etc.) revenue or margins due to incentives and/or business environment conditions of a competing jurisdiction <i>* Source: <a href="https://simplicable.com/new/competitive-risk">https://simplicable.com/new/competitive-risk</a></i>	<b>Threats:</b> <ul style="list-style-type: none"> <li>Tax credits that provide incentives for companies to do business in B.C. are more attractive in other jurisdictions</li> <li>Shifting consumer preferences for B.C. exports</li> </ul> <b>Opportunities:</b> <ul style="list-style-type: none"> <li>Partnerships with neighboring jurisdictions to incentivize economic benefits together rather than as individual markets (trade agreements, marketing strategies, product development, etc.)</li> <li>New B.C. export opportunities realized by shifting consumer demand</li> </ul>