EAs—Centres of the Reform Process

Government's agenda. Reform is not new to the public services in CARICOM countries like Jamaica, but finding the right mechanism and structure through which that reform is to take place presents a continuous challenge. There is agreement that chronic long-term under-investment has run down the essential infrastructure of many of our public services. The Government has made a commitment to a sustained increase in vestment across the country, but without change money may simply be wasted on outdated practices that do not produce the required results. If allowed to continue, dysfunctional public sector agencies can therefore impair development and perpetuate poverty. For some time now an enormous number of management reforms that seek to establish a concept of how government should work have been attempted. Virtually every element of these reforms has been designed to establish or strengthen contract-like relationships between the government and ministers as purchasers of goods and services and departments and other entities as providers of those goods and services. One need only to consider the mushrooming establishment of "the statutory agency" as an alternative to the traditional public service administrations to recognise the pressing desire to establish a system of accountability for the results expected from each governmental entity.

The creation of Executive Agencies (EA's) is yet another attempt to improve the workings of government and make the public service a viable and responsive service. In a consumer age, users expect quality, choice and standards and seldom receive them from their public services. Over time demands on the public service have risen inexorably such that public services are required to serve more people, for longer periods and in more complex ways. Expectations of public services have therefore risen greatly, yet services designed for a previous age find difficulty in responding.

The establishment of the executive agency model is still, a "work in progress". The Executive Agency model was therefore seen by the government of Jamaica, as a mechanism that could implement these radical and innovative changes that could improve the quality, efficiency and cost-effectiveness of their level of service offered by the public sector. Executive agencies such as of the Administrator General's Department and Companies Office of Jamaica have had noted success in the delivery of quality service since their creation.

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FACT SHEET
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Prepared by the
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In this quarterly issue:

1. ***Gauging Business Risk***
2. ***EAs—Centre of the Reform Process***

August 8, 2006

Gauging Business Risk

The underlying premise of enterprise risk management is that every entity exists to provide value for its stakeholders. All entities face uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. So one has to ask if the entity recognizes its risks exposures and if it acknowledges the possibility that those risks will occur as well as their potential impact upon their operations, whilst trying to enhance the capacity to build and maintain value.

Value is maximized when management sets strategy and objectives to strike an optimal balance between growth and return goals and related risks, and efficiently and effectively deploys resources in pursuit of the entity 's objectives. By recognizing and appreciating the potential impact of entity wide risks, an organization can select responses that align with its business objectives and risk appetite. In addition, findings from the assessment can be used for establishing: -

1. The scope of internal audits
2. Audit objectives
3. Internal control testing
4. Assistance with the independent auditor 's work

Everyone in an entity has some responsibility for enterprise risk management. The CEO is ultimately responsible and should assume ownership. Other managers support the entity 's risk management philosophy, promote compliance with its risk appetite, and manage risks within their spheres of responsibility consistent with risk tolerances. A financial officer, internal auditor, and others usually have key support responsibilities. Other entity personnel are responsible for executing enterprise risk management in accordance with established directives and protocols. The board of directors provides important oversight to enterprise risk management, and is aware of and concurs with the entity 's risk appetite. A number of external parties, such as customers, vendors, business partners, external auditors, regulators, and financial analysts often provide information useful in effecting enterprise risk management, but they are not responsible for the effectiveness of, nor are they a part of, the entity 's enterprise risk management.

Enterprise risk management encompasses:

- Aligning risk appetite and strategy
- Enhancing risk response decisions
- Reducing operational surprises and losses
- Identifying and managing multiple and cross-enterprise risks –
- Seizing opportunities
- Improving deployment of capital

As implicitly suggested there is a direct relationship between objectives , which are what an entity strives to achieve, and enterprise risk management components, which represent what is needed to achieve them. This relationship is appropriately depicted in a three-dimensional matrix, in the form of a cube as shown below.

As seen the four objectives categories – strategic, operations, reporting, and compliance – are represented by the vertical columns, the eight components by horizontal rows, and an entity 's units by the third dimension. This depiction portrays the ability to focus on the entirety of an entity 's enterprise risk management, or by objectives category, component, entity unit, or any subset thereof.

The eight components will not function identically in every entity. Determining whether an entity 's enterprise risk management is "effective" is a judgment resulting from an assessment of whether the eight components are present and functioning effectively. When enterprise risk management is determined to be effective in each of the four categories of objectives, respectively, the board of directors and management have reasonable assurance that they understand the extent to which the entity 's strategic and operations objectives are being achieved, and that the entity 's reporting is reliable and applicable laws and regulations are being complied with.

Reform of Jamaica's public service is at the heart of the

THREE DIMENSIONAL MATRIX