

Integrated Risk Management Model Update

Introduction

The information contained within this report is intended to provide the Audit Committee with an update on the Integrated Risk Management (IRM) Model consistent with the Audit Committee Terms of Reference. The City's IRM System consists of an operating model and risk governance structure, both of which are underpinned by acceptable risk management practices throughout the organization.

The previous (2015 July) IRM Model Update utilized the Canadian Institute of Chartered Accountants guide on "20 Questions Directors Should Ask About Risk" to focus the report. The 2015 report noted four key, prevailing, themes within our program which have become the foundational pillars for the IRM Framework (Attachment 2) and will be the basis of our 2016 Model Update report:

- Governance and oversight
- Established practices and processes
- Integration of IRM within The City's strategic direction
- Review and continuous improvement

The four pillars of our framework will be used to provide the Audit Committee with assurance that The City has the appropriate framework in place to manage our risks and opportunities effectively.

For each of the four pillars, the following information is provided:

1. Activities and process since the last integrated Risk Management Model Update report was received by Audit Committee on 2015, July 16 (AC2015-0451)
2. Next steps to enhance The City's IRM program.

This focused approach outlines The City established and upcoming practices in order to provide Council assurance that The City has the appropriate Model and Framework in place to manage its risks and opportunities effectively. Each of the CICA's 20 questions are supported by the pillars of the Framework, and can be mapped back to the pillars accordingly as shown in Attachment 3.

The information provided in Attachment 1 demonstrates that:

- The City of Calgary is becoming increasingly more proactive, through our Integrated Risk Management (IRM) Program, at the consistent identification, assessment and management of risks inherent to our strategies, activities and operations. The IRM Framework consists of an operating model and a risk governance structure, both of which are underpinned by the essential qualities of our organization; competence, character, commitment and collaboration.
- Throughout the past year, using a series of coordinated activities, progress has been made in a number of these areas.
- Each of these activities has contributed to the successful completion of the 2014 Audit recommendations on IRM. More information about this progress is in Attachment 1.



There are a number of ways that Council and Administration demonstrate a commitment to risk management by having governance and oversight policies, practices and processes in place. These include:

Council Policy: Council's IRM Policy (CC011) is purposed to embed a proactive, corporate-wide and systematic approach to manage risks that impact The City of Calgary's ability to achieve its objectives. The Policy outlines the Principles of Integrated Risk Management, Risk Tolerance, Managing Risks, Reporting to Council and Exceptions.

Council and Audit Committee Governance: The Audit Committee, on behalf of Council, is mandated to oversee the process of the City's Integrated Risk Management System (bylaw number 48M2012). This oversight includes receiving reports from Administration at least twice per year (one on The City's principal risks and one on The City's IRM Model) and reviewing on an annual basis reports on the adequacy of insurance coverage; legal compliance; Information Technology's risk management and other areas as determined by the Committee.

Administration Oversight: Administration's commitment to Integrated Risk Management is stipulated as a strategic priority within its Leadership Strategic Plan. The Administration Leadership Team (ALT) formally discusses Principal Corporate Risks at least twice per year. All Principal Corporate Risks are also owned and intentionally managed by members of the ALT.

What has happened since 2015 July?

Risk Aware Culture: The City's risk culture continues to evolve at The City. The strengthening of the risk aware culture has been validated at the governance level of the organization in many ways over the past year, including: the ongoing, robust, risk based discussions at Audit Committee and Council, and the dedicated risk session at the 2016, March Strategic Meeting of Council. Further, the Administrative Leadership Team has demonstrated its unwavering support for Integrated Risk Management, through promotion of the IRM processes and by owning the Principal Corporate Risks.

Transparent reporting: Administration's Principal Corporate Risk Report (AC2016-0075) demonstrated enhanced transparency by providing Audit Committee and Council with insight into the key, material risks, facing The City. This report examined the current state and directional trend of the risk, while highlighting the risk management strategy in place, coordinated by the Risk Owners. Throughout the past year, Council and its Committees have received a variety of reports which provide them with additional, detailed information regarding The City's Principal Corporate Risks.

Principal Corporate Risk Ownership: As of 2015, all 15 Principal Corporate Risks are owned by individual members of the Administrative Leadership Team. These Risk Owners are responsible for establishing a coordinated risk management strategy to address their respective Principal Corporate Risk(s). This accountability model ensures consideration for the Principal Corporate Risks is organically integrated into the organization's strategic decisions. The intentional management of the Principal Corporate Risks; is founded on the concept of "individual responsibility, collective accountability." Risk ownership was recently adjusted to accommodate the corporate realignment which occurred in Q1 of this year.



What is happening next?

Review of Policy: The Integrated Risk Management Policy (CC011) provides The City's underlying approach to risk management. Over the next two years, it will be reviewed to ensure it continues to maintain relevance and is aligned with risk management industry best practices.

Risk Tolerance and Appetite: Defining The City's Risk Appetite, Risk Tolerance and Risk Capacity will enhance The City's decision making capability. This will allow The City to take a portfolio approach to managing risks which will optimize tradeoffs between risk and return across all business activities. IRM is scheduled to begin this work in alignment with the next strategic planning cycle in 2018.

Enhancing Risk Reporting: As noted above, Council and its Committees receive a variety of risk reports from Administration. The Chief Financial Officer's Department will continue to provide the education and tools to enhance the mandatory "risk analysis" section of the Council (Committees) cover reports.

Integration of IRM with The City's Strategic Direction



Integrated Risk Management is designed to be woven into existing business processes and to inform The City's strategic direction. This is demonstrated in a number of ways:

Leadership Strategic Plan: In 2014 September, Council approved the Leadership Strategic Plan (LSP) which includes the implementation of a performance management system. IRM is one element of this system. The City's Corporate Principal Risks that were provided to the Audit Committee on 2016 January 21 were organized around the five goals of the LSP. The City's Principal Corporate Risks are connected to the five components of the Leadership Strategic Plan, allowing for the strategic planning process to be grounded in risk transparency and insight.

Integrated Performance System: The Integrated Performance System (IPS) is a systematic approach to continuous improvement designed to increase organizational capability and capacity, with the ultimate goal of better service our citizens, communities and customers. Integrated risk management is one tool within the system which supports our decision making by providing us with the framework to minimize downside risk, while maximizing opportunity.

Business Planning and Budgeting: The City has defined "risk" as: *an event that impacts the achievement of objectives and deals with the uncertainty of events*. Through proactively identifying and assessing risks, this intrinsically neutral definition provides the parameters for The City to manage down-side risk while seizing opportunities; ensuring it is taking "the right amount" of risk. Using this definition as guidance, The City has integrated risk management into the strategic and business planning processes. Within business planning cycles, regular status updates on department business plans and budgets help to manage risk by ensuring that Council and senior managers are aware of emerging issues, challenges and opportunities and can react accordingly. Departmental risk registers are updated biannually in conjunction with the business plan and mid-cycle adjustment process and used to inform the Principal Corporate Risks.



What has happened since 2015 July?

Principal Corporate Risks: The 2015 and 2016 Principal Corporate risks were identified using a combined bottom-up, top-down approach to risk management, which includes:

- Identifying risks at the project and business unit levels in the organization. Through a coordinated “corporate risk register process,” completed in conjunction with the business planning process, the business unit and project risks are aggregated and prioritized at a departmental level. This bottom-up process is now aligned to ensure the business units and departments are considering their risks in advance of business planning.
- Engaging the ALT in an extensive process to identify the Principal Corporate Risks associated with the Leadership Strategic Plan (LSP), and intentionally managing the risks as the Principal Corporate Risk Owners .

The Principal Corporate risks were formally presented to Audit Committee in 2016, January, (AC2016-0074), and were discussed extensively during the 2016, March Strategic Meeting of Council. Further the Principal Corporate Risks are communicated extensively within the organization and components of the Principal Corporate Risk Report are made publicly available.

The Principal Corporate risks are continuously evaluated for accuracy, relevance and completeness; for example, during the 2016, March Strategic Session of Council it was noted a Principal Corporate Risk around “citizen engagement” may be missing. By employing extensive analysis through the top-down, bottom up approach, it was established the risk was captured within two of the other Principal Corporate Risks.

Integrated Performance System: As mentioned earlier, the IPS is a disciplined approach to continuous improvement designed to increase organizational capability and capacity; with the ultimate goal of better serving our citizens, communities and customers. Over the past year, significant work has been dedicated to strengthening the connections and effectiveness of this decision making framework.

What is happening next?

Continuous Top-Down, Bottom Up Risk Management Approach: The continuous process of identifying, assessing, managing and communicating our Principal Corporate Risks (see Diagram 1) allows Administration’s decisions to be informed by current and relevant risk insight in a dynamic political, economic and social environment. Therefore, starting in 2016 Departments will be required to formally submit risk registers biannually.

Diagram 1: Principal Corporate Risk and Reporting Process



Established Practices and Processes

Risk management processes are embedded within all major functions of The City’s lines of service as a means to identify, assess and proactively manage risk. The City has many established practices and process which support effective risk management. The City’s IRM Model is constructed from the foundations of the ISO 31000 Standard, which includes a systematic process for identifying, assessing, managing, communicating and monitoring risks.

Risks are assessed using a common risk assessment tool (risk matrix); and managed using a portfolio approach that optimizes trade-offs between risk and return across all business activities.

The City has a variety of mechanisms to communicate risk management practices including; an Intranet site available to all staff, an IRM City-Specific course, and IRM facilitated discussions and consultations. Practices and processes are also in place regarding the reporting of risk. Council is informed of the Principal Corporate Risks in reports from Administration to Council and Committees of Council (see Attachment 3), in The City’s Annual Report, and in the Annual Principal Corporate Risk Report to the Audit Committee.



What has happened since July 2015?

Pragmatic Approach to Risk Management: Integrated Risk Management is a lens on decision making. Its strength, as a component of the Integrated Performance System resides in the applicability and usability of the program. The City's pragmatic approach to risk management has deviated from the academic practice of assessing inherent and future state risk, to focus instead on the current state of risk and risk trending. The City has altered its risk reporting at all levels of the organization, the new reports are designed as discussion documents used promote the connection between risk and the corporate, strategic direction.

Portfolio Approach: The City is dedicated to employing a portfolio approach to managing risk maximizing resources dedicated at The City. By ensuring all methods for managing risk are considered allows The City to increase efficiency and effectiveness of service delivery. The City has focused on managing risk beyond mitigation and avoidance to incorporate all five strategies for addressing risk:

- **Avoid the risk:** Do not engage in, or cease engagement with, the activity
- **Mitigate the risk:** implement strategies to reduce the likelihood and/or impact of the risk materializing
- **Share the risk:** outsource, use contracts or partnerships, insurance or other forms of transfer
- **Accept the risk:** Accept the risk in its current state and monitor the risk
- **Embrace the opportunity:** recognize every risk is an opportunity that can be exploited.

Risk Prioritization: Historically, risks were identified at The City focusing on a bottom up approach to risk management; thousands of risks were stored in a centralized repository, known as the Corporate Risk Register. The City recognizes that risks need to be prioritized, to ensure they are being effectively addressed at the appropriate levels of the corporation; with ALT and Council focusing the risks of most importance. As a component of the bottom-up risk management process, Business Units and Department engage a risk prioritization activity, as risks are escalated to the corporate risk register. The intrinsic value of the prioritization process occurs in the robust risk discussions, held by management teams throughout the organization.

Communicating, Connecting and Consulting: Formal and informal risk networks exist throughout the organization to collaborate and discuss current best practices related to risk management. A Risk Coordination Group, comprised of representatives from key, corporate risk functions, in the organization is in its inaugural stages of development.

What is happening next?

Risk Assessment: The City uses a 3x3 risk matrix to consistently asses risk across the organization. While simplistic and easy to apply, limitations exist in the ability to provide a practical platform to compare different risks (for example, the risk of the Zika virus versus the aggregate risk of vehicle-pedestrian collisions). Revaluating the risk matrix has been included as a component of the IRM programs' upcoming workplan.



IRM is an evolving program at The City; our established IRM practices and processes support ongoing management of risk. Further, organizational learning and continuous improvement is an important component of managing risk.

What has happened since July 2015?

Audit Recommendations: The 2014 Audit of IRM identified opportunities to improve the program by: enhancing communication on The City's existing principal risks and reporting of risk treatment information; improving identification, assessment, and consolidation of significant risks, and; increasing commitment and support for IRM. Over the past year, using a series of coordinated activities, the IRM program has completed these audit recommendations; many of the activities completed have been referred to throughout this report.

What is happening next?

Using a result based approach, the CFOD has identified four results for the IRM program, which are intended for the timeframe of 2016-2018 (to the end of the current Action Plan):

1. Integrated Risk Management is connected to other risk functions in the organization.
2. The City has an established competency for identifying, assessing and managing risk.
3. The City communicates, monitors, and reports risks continuously, consistently and transparently.
4. The City has a defined risk governance structure.

Foundational components for each of these results are already in place and evolving. Key activities will be completed over the next three years to further advance the results, in line with the IRM work plan and building on the foundation of IRM practices currently in place at The City of Calgary including:

1. Continuing to advance our pragmatic approach to risk management by enhancing our risk identification and reporting processes.
2. Addressing and managing risks using a portfolio approach.
3. Prioritizing and managing our risks at appropriate levels of the organization.
4. Continuing to integrate risk with our business and strategic planning and cohesively connecting our corporate risk management functions.
5. Enhancing risk communication and reporting.