
INTEGRATED RISK MANAGEMENT MODEL UPDATE

2014 May 15

This report provides Audit Committee with an update on the management practices and processes of The City of Calgary's Integrated Risk Management Model. To prepare this update, Administration has adapted the Canadian Institute of Chartered Accountants (CICA) guide on questions that directors should ask about risk. The CICA questions are not intended to be a precise checklist, but rather provide a practical approach to review the management practices and processes that are being used by Administration to comply with Council's Integrated Risk Management (IRM) Policy.

1. How are the principles of Council's Integrated Risk Management (IRM) Policy reflected in The Corporation's strategic direction & plan?

A process for identifying and considering risks related to the achievement of proposed strategic outcomes was an integral component of the development, reporting and adjustment processes for the 2012 - 2014 Departmental business plans and budgets. As a part of the annual business planning and budget review processes, departments review the risks that were identified during the development of business plans and budgets, and also consider any risks to objectives that have emerged over the last 12 months. Updates on any significant risks associated with the achievement of the strategic results and outcomes within the business plans are provided to Council as a part of the business plan and budget reporting processes, and to the City Manager's Office (CMO) for inclusion in the annual Corporate Risk Report provided to Audit Committee.

IRM has also been incorporated into the development of the 2015 – 2018 Action Plan. IRM instructional materials were created for departmental business planners to guide the consideration of risk during the development of future objectives and actions. Administration is monitoring the Action Plan process with the intent of aligning the departmental and Corporate principal risk profile with the key outcomes, strategies and actions that will be included in the 2015 – 2018 Action Plan. Establishing a clearer alignment to and creating a greater awareness across the organization of the risks related to the achievement of the outcomes of the 2015 - 2018 Action Plan aligns with Recommendation 2 and 3 of the recent IRM Audit.

2. How is Council informed of principal risks?

Administration considers a "principal risk" to be a risk that has either a medium to high likelihood in occurrence, or a medium to high impact to the achievement of Corporate objectives, or both. There are three primary processes for informing Council of any principal risks that may impact the achievement of Corporate objectives. These include:

- the inclusion of risk information in all reports from Administration to Council and the Committees of Council;
- the reporting of principal risks in the disclosure statements of the annual Corporate Report released in April; and
- the annual Corporate Risk Report provided to Audit Committee by the City Manager prior to consideration of business plan and budget related activities by Council at the end of November.

In addition to these report processes, ad hoc reports on emerging principal risks can also be made by Administration as required through the Priorities & Finance Committee (PFC), scheduled meetings of Council, or special meetings of Council should they be required.

The IRM Audit has identified an improvement opportunity related to broadening the communication and access to risk owners and internal stakeholders on the principal corporate risks. The current process for indentifying The City's principal risks is primarily an upward reporting process to the Administrative Leadership Team (ALT) that is focused on preparing an annual report to the Audit Committee. Administration supports the principle of expanding the sharing of risk information related to The City's principal risks and has formulated strategies for implementation. Once the final presentation format and reporting processes related to the 2015 – 2018 Action Plan have been confirmed, Administration will present a recommended implementation plan to the City Manager and ALT. It is anticipated that a revised process would be completed by the end of 2014.

3. Are we taking the right amount of risk?

The primary focus of Council's IRM Policy is on identifying and managing the "downside" aspects of strategic outcome risk. Through the policy, Council has established a base level of risk tolerance by stating that "Risk tolerance is the level of risk acceptable to Council and senior management", and that "all employees will operate within approved risk tolerance levels." The "approved" level of risk tolerance is generally defined as complying with all legislated requirements, City of Calgary values, all applicable policies, bylaws, regulations and professional standards.

Establishing risk tolerance on major strategic initiatives and projects that do not have easily quantified or measurable risks (e.g. how much room exists to balance innovation with varying degrees of success) is commonly based on the circumstances related to the activity under consideration, at that moment in time. As such, Administration continuously seeks ongoing guidance from Council and senior management in understanding what level of tolerance is acceptable – especially for projects and initiatives that may require a level of innovation and trial to realize increased value for The Corporation.

4. How effective is our process for identifying, assessing and managing risks?

Within The City's IRM model, the IRM framework provides step-by-step guidance for identifying, assessing and managing events or circumstances (risks) that could impact the ability of The Corporation to achieve objectives. This process explicitly takes account of the uncertainty, the nature of that uncertainty, and the implications related to addressing the risk.

To gauge the effectiveness of the IRM model and framework as a process that helps decision makers make informed choices, prioritize actions, and distinguish among alternative courses of action, Administration conducts periodic maturity assessments of The City's IRM model against industry best practices, such as the Canadian Standards Association (CSA) / CAN ISO-31000 standards. Against these standards, the processes related to The City's IRM model correspond to a "low-enhanced" level of risk management maturity which represents a combination of maturing and basic risk management practices across the organization. This level is described by the CSA to be where activities and techniques are employed for enhanced stakeholder confidence that strategic, operational, and project management risks are being managed proactively, and that integration of risk management activities is occurring across the organization. Further, this level of maturity is considered by Administration to generally meet the purpose and principles of Council's IRM policy.

Although the recent IRM Audit findings have supported Administration's assessment of this risk maturity level, and that current IRM practices do generally meet the principles of Council's policy, Administration continues to evolve and improve the process. In 2014 Administration will develop goals and performance indicators to further demonstrate the operational compliance of the IRM program with the intent that such indicators be included in the 2015 – 2018 Action Plan. This work aligns with Recommendation 4 of the IRM Audit.

5. Do people at The City have a common understanding of the term "risk"?

Council's IRM Policy provides a City-specific definition of risk as "an event that impacts the achievement of objectives and deals with the uncertainty of events." Risk at The City is measured in terms of consequence or impact, and the likelihood of occurrence. The City's IRM model uses a three point rating (High, Medium, and Low) to assess both the "Likelihood" and "Impact" aspects of a risk. Guidelines are in place to assist employees with rating risk. These guidelines are not strictly prescriptive and the users closest to the specific situation under consideration employ their own knowledge and experience to arrive at appropriate risk ratings.

Risk Likelihood Guideline:

High	Greater than 80%
Medium	Between 20% and 80%
Low	Less than 20% and has not occurred in the past five years

Risk Impact Guidelines:

Impact Guidelines are more descriptive in nature. The IRM model provides a series of examples of Impact Ratings for High, Medium, and Low Risks to help guide users to arrive at an appropriate rating. An example of the IRM Guidelines for “High” impact risk rating is as follows:

Impact Rating	Financial	Service Delivery	Workforce	Alignment
High	<p>Failure to maintain financial capacity to meet demands</p> <p>Significantly inefficient use of resources</p> <p>Exposure to significant liability</p> <p>Unable to meet new infrastructure demands as well as maintaining the old</p>	<p>Unable to deliver core services</p> <p>Unable to meet objectives of approved business plans and budgets</p> <p>Conflicting or un-coordinated activities</p> <p>Unable to develop viable partnerships</p>	<p>High incidence of staff complaints.</p> <p>Significant loss of knowledge / expertise</p> <p>High turnover of staff (>10%)</p> <p>Maintaining a competent workforce.</p> <p>Decreasing employee satisfaction</p> <p>Insufficient people available</p>	<p>Misaligned direction of effort significantly impedes efficient and effective delivery of services</p> <p>Suburban and regional growth misaligned with Municipal Development Plan, and Calgary Transportation Plan</p> <p>New and more stringent federal or provincial legislation without policies and procedures for municipal compliance</p>

Risk ratings for likelihood and impact are then combined to give an overall rating (e.g. H-H, or M-H) with likelihood expressed first. Results are often plotted to a Heat Map in order to focus upon the highest rated risks and to identify clusters of risk.

Evaluation of Risk – Risk Map

Impact	High	Contingency - Back Up Plan Required	<i>Must manage and monitor risks</i>	<i>Extensive management essential</i>
	Medium	Risks may be worth accepting with monitoring	Management effort worthwhile	<i>Management effort required</i>
	Low	Accept risks	Accept, but monitor risks	Manage and monitor risks
		Low	Medium	High
		Likelihood		

The IRM model also includes guidelines to assist departments, business units, project managers, and report writers to determine the appropriate management response to a rated risk. Management uses these guidelines to determine appropriate mitigation actions to reduce likelihood and/or impact.

Low Risk	Medium Risk	High Risk
<ul style="list-style-type: none"> • Manage risk by: Avoid, Reduce, Transfer • Monitor regularly • Use existing internal processes • Communicate to manager or project team <p>e.g. Blackberry outage</p>	<ul style="list-style-type: none"> • Manage risk by: Avoid, Reduce, Transfer • Develop a strategy and plan • Use existing internal processes • Monitor regularly • Communicate to Director or Manager <p>e.g. lack of office space</p>	<ul style="list-style-type: none"> • Risk must be: Managed, Reduce, Transfer • Communicate to CM and GMs • Monitor regularly <p>e.g. labour shortage</p>

The IRM intranet site is accessible as a resource for all staff. The site contains a comprehensive set of risk diagnostic tools and information that establishes a common understanding of risk at The City. In addition, the CMO provides workshops and facilitates strategic discussions to ensure a common understanding of risk management practice on significant projects, programs and high profile events.

6 - How do we ensure that risk management is an integral part of the planning and day-to-day operations of individual business units?

The City Manager is responsible for ensuring that Administration complies with Council's IRM Policy. The primary focus to achieve this compliance is promoting and supporting a proactive, integrated and corporate-wide approach to considering and communicating the uncertainty related to the achievement of The City's strategic objectives. The expectation of integrating IRM into day-to-day operations is established within the principles of Council's IRM policy and accountability rests with senior administration to ensure these expectations are met. Each department monitors the risks related to the activities of the business units and risk information is shared between departments and with the CMO.

On an increasing basis, business units and project-oriented groups are requesting facilitated risk discussion / assessment sessions at the outset of initiatives and projects. The facilitated sessions create an effective method for ensuring that risk management becomes an integral component of the planning and day-to-day operations of the work area. These sessions are facilitated with resources from the CMO.

7. How do we ensure that Council's expectations for risk management are communicated to and followed by our employees?

Administration maintains a web-based resource centre for IRM related information including information, tools and education to prepare employees to understand, manage and communicate risks within their area of responsibility. Emphasis has been placed on leveraging City intranet and web based resources for sharing information to allow for ease of updating information, collaborating on Corporate perspectives, and reducing production and distribution expenses.

IRM educational opportunities for managers and supervisors, with specific guidance on how to integrate risk management into strategic planning and day-to-day operations, are delivered on a regular basis. In addition, dedicated internal consultative, advisory and education services related to IRM are available for use by business units and/or project groups to increase awareness on how to address risks related to a specific topic.

8. How do we ensure that senior management and employees act in the best interests of The City?

The City of Calgary's Employee Code of Conduct addresses a broad range of employee conduct issues that may create risk for The City of Calgary as a corporation. Included in the Code is a series of policy summaries that reference current City of Calgary policies governing employee conduct. These policies are as follows:

- Acceptable Use of City Technology Resources Policy
- Conflict of Interest Policy
- Environmental Policy
- Freedom of Information and Protection of Privacy (FOIP)
- Public Statements and Media Relations Policy
- Respectful Workplace Policy
- Substance Use Policy
- Occupational Health and Safety Policy

All employees are responsible for adhering to all aspects of the policies referenced in the Code. Management is responsible for ensuring that employees are aware of and understand all City of Calgary policies including the Code of Conduct. Further, it is the responsibility of management to identify any breaches of the Code and deal with these through the appropriate discipline process outlined in the various collective agreements and exempt staff policy.

Audit Committee "oversees The City's system of disclosure and internal controls regarding finance, accounting, legal compliance and Codes of Conduct that Administration and/or Council have established." Administration prepares an annual report for Audit Committee highlighting The City's activities in continuing to increase the awareness of, and educate employees about, The City's Code of Conduct Policies.

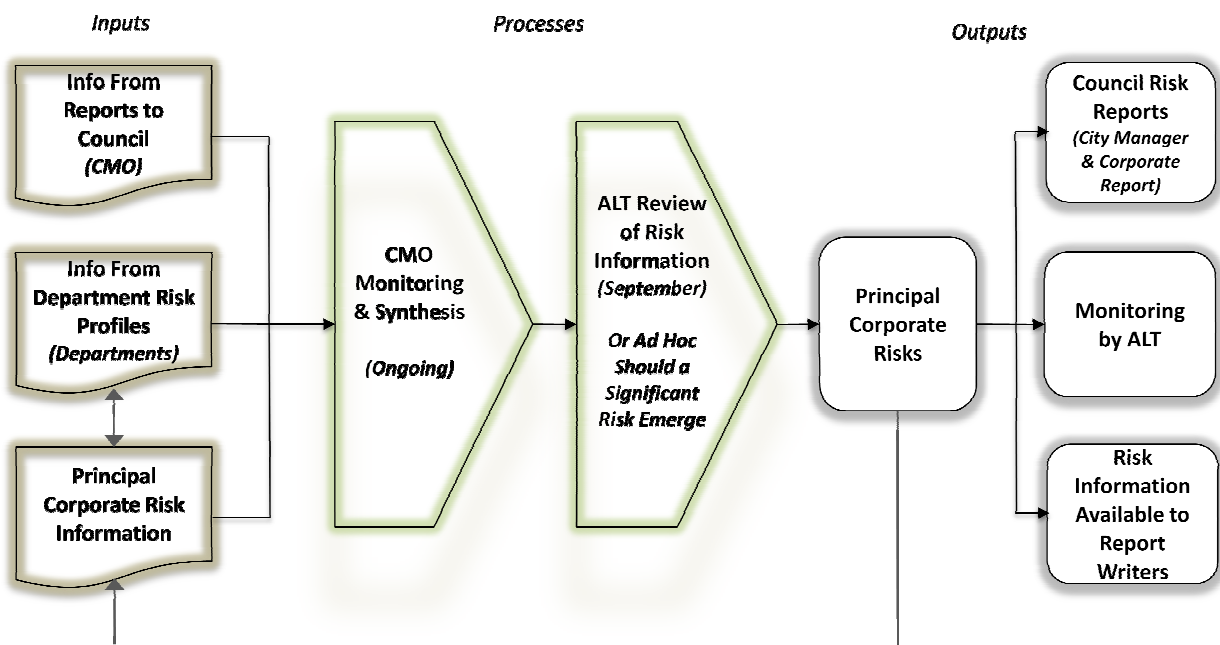
9. How is risk management coordinated across The Corporation?

IRM at The City is not a stand-alone initiative. It is designed to be woven into the existing business processes that The City of Calgary already uses on a day-to-day basis. Resources within the CMO are responsible for developing the processes and overseeing the systems that promote a coordinated approach to the consideration of risk management across The City. This responsibility is achieved by leading the development and implementation of a comprehensive set of risk management procedures, programs, and communication strategies to help ensure risk management becomes a regular part of day-to-day operations.

At the core of the system is the Council approved IRM Framework, and an ALT approved system for updating and sharing risk information. The Framework provides a consistent,

systematic process for identifying, considering, managing, recording, and reporting of risk across the organization. The Framework is illustrated in the overall IRM model that is provided within the materials accompanying this document.

Coordination is further achieved through the ALT approved system for updating risk information. This system includes at a minimum an annual strategic review by the ALT that utilizes risk information provided by all departments. The departmental risk information is shared to create awareness across the departments, and is used to identify the principal Corporate risks. The components of this system are further illustrated as follows:



In response to recommendations from the IRM Audit, Administration has developing strategies and processes for the sharing of risk management information across The Corporation. The objective is to increase the use and reference to the principal Corporate risk information by report writers who are preparing recommendations for Council and the Committees of Council. This work aligns with IRM Audit Recommendation 1.

10. How do we ensure that The Corporation is performing according to the business plan and within appropriate risk tolerance limits?

Within the 2012 – 2014 business cycle, regular status updates on department business plans and budgets help to manage risks by ensuring that Council and senior managers are aware of

emerging issues and challenges, and can react accordingly. Comprehensive mid-year and year-end Accountability Reports are provided to Council through the Priorities and Finance Committee, with information on the status of Council's Fiscal Plan and the 2020 Sustainability Direction. These reports illustrate the line of sight between short-term performance and long-term achievement of objectives.

The Mid-Year Report provides Council with details on Administration's achievement of the business plans and budgets. Each department reports on year-to-date budget variances, business plan accomplishments and performance measure achievements. The timing of this report coincides with Administration's initial preparation of the proposed budget and business plan adjustments for presentation to Council in November. As a part of preparing for the annual budget reviews, departments review and amend any risks to strategic outcomes that were identified at the beginning of the business cycle, and add any new risks that may have emerged during the business year.

Administration is monitoring the Action Plan process with the intent of aligning the departmental and Corporate principal risk profile with the key outcomes, strategies and actions that will be included in the 2015 – 2018 Action Plan. Establishing a clearer alignment to and creating a greater awareness across the organization of the risks related to the achievement of the outcomes of the 2015 - 2018 Action Plan will further advance opportunities for discussions on appropriate risk tolerance limits across departments, and between Council and Administration. Actions to implement guidelines will be developed in 2014 and aligns with Recommendation 3 of the recent IRM Audit.

11. How do we monitor and evaluate changes in the external environment and their impact on The City's strategy and risk management practices?

The ALT regularly evaluates changes in the external environment and considers their impact on The City's strategy and/or risk management practices. To support this ongoing evaluation, the CMO monitors risk information from departments, reports, risk commentary from certain subject matter experts across The Corporation, and risk information from various external sources. Representatives of the CMO also regularly participate in risk management networking groups from industry, municipalities, and other levels of government. Information from this monitoring process is presented to the ALT at their annual risk review session which is timed to ensure there is a shared base of awareness on Corporate risks prior to moving forward with recommendations to Council on business plan and budget adjustments, and to provide input into the annual Corporate Risk Report to Audit Committee.

12. What information about the risks facing the organization does Council receive to help it fulfill its stewardship and governance responsibilities?

As previously mentioned in area #2 of this report, there are three primary processes within the organization for sharing strategic risk information with Audit Committee and Council. These include:

- the inclusion of risk information in all reports from Administration to Council and the Committees of Council;
- the reporting of principal risks in the disclosure statements of the annual Corporate Report released in April; and
- the annual Corporate Risk Report provided to Audit Committee by the City Manager prior to consideration of business plan and budget related activities by Council at the end of November.

This risk information is provided in parallel with a number of specific annual risk reports to Audit Committee and Council that provide focused insights into risk management related areas such as information technology, finance, legal risk, and insurance coverage. Matters of uncertainty related to business continuity and emergency response to crisis situations are also provided by the Calgary Emergency Management Agency that reports to Council through the Standing Policy Committee on Community and Protective Services.

Administration is currently implementing strategies that place particular emphasis on improving the quality and consistency of the risk information related to the recommendations provided in all reports to Council and Committees and Council. To advance this approach, Administration is revising the Report Writing Workshops and the current guidelines on how to report on risk. The objective is to link the improved process on how to communicate on risk with the process of creating greater awareness of the Corporate principal risks so that the risk related information received by Council contributes towards their stewardship and governance responsibilities.

13. How do we know that the information Council receives on risk management is accurate and reliable?

All reports to Council prepared by Administration, including the risk related information, are subject to a review and approval process by the senior management levels of the area preparing the report. The CMO provides guidance and education to the business areas and report writers on how to communicate information related to risks in Council reports. As a part of the improvement processes indicated in area #12, Administration will establish targets related to the quality and consistency of risk information provided in the reports to Council and include reporting on the progress towards such targets in future updates of this report. This work also aligns with IRM Audit Recommendation 4.

14. How do we decide what information on risks we should publish?

Council's IRM policy provides guidance on the communication of risk information and clearly states that concealing risks to protect Council is not an acceptable practice. It is recognized however, that publishing risk information is an activity that can expose The Corporation to unintended consequences. Releasing details on Corporate risks could impact existing litigation, negotiation processes, or assist those who have interests adverse to The City. As such, Administration has developed guidelines for communicating information on significant risks that should be heard in-camera, or confidentially in accordance with the Province of Alberta's Freedom of Information and Protection of Privacy Act (FOIP). These guidelines include processes for legal and FOIP office review to ensure there is a balance between transparency and protecting the interests of The Corporation. An update of these guidelines is included in the improvement actions mentioned in area #12 of this report.

15. How do we take advantage of the organizational learning that results from the risk management program and activities?

Feedback from stakeholders is collected after each IRM educational program or facilitated session. This feedback is incorporated into the ongoing continuous improvement processes that are included in the design of The City's IRM model. The educational program for IRM is also continuously updated with relevant City-based risk management cases as they become available. Further, The CMO has incorporated processes for tracking the status of risks that have been identified over the term of the business plan and budget cycle. It is anticipated that this approach will enable future learning opportunities by tracking the effectiveness of risk management strategies used and by using organizational outcome experiences as a basis for future learning programs. This improvement work aligns with Audit Recommendation # 4.