

Enterprise Risk Management Program Update

This attachment provides an update on current key initiatives and focus areas for the Enterprise Risk Management (ERM) program in 2023-2026.

Audit Recommendations

In 2021 May, The City Auditor's Office performed an audit on the effectiveness of the ERM framework, resulting in five audit recommendations. Two of the five audit recommendations were closed as of 2021 December 7. The remaining three audit recommendations (AC2023-0011 – Attachment 4) were closed as of 2023 March 14 and no further actions are required.

Risk Maturity

On 2022 December 12, the Executive Leadership Team (ELT) approved Tier 4 as the desired level of maturity for the organization. This was also communicated to the Audit Committee on 2023 January 19 ([AC2023-0011](#)). The ERM team is working on a detailed plan to achieve a Tier 4 level of maturity and are on track to have it developed by 2024 Q1.

To underpin this plan, the ERM team identified four focus areas for 2023-2026 to further our progress toward the desired level of maturity: Risk governance, Improved reporting, Risk appetite and tolerance, and ERM integration. Work has begun in each area in parallel with the detailed planning work and an update on each of these areas is below.

1. Risk Governance

Organizational Risk Governance

Ensuring robust risk governance is paramount for our organizational governance and to build a risk-aware culture. This enables us to make well-informed decisions and achieve our intended results. We are in the process of developing a risk governance framework to elevate risk management across the organization. This framework will help us to:

- Improve risk culture and the flow and transparency of risk information
- Establish stronger risk accountability structures
- Embed risk discussions into continuous dialogue/decision making
- Encourage collaboration across business units, services and departments in managing risk
- Improve consistency in risk management practices/documentation
- Streamline the escalation and communication of significant risks

We are building awareness and understanding of risk governance across the organization, and support for a framework. We are working closely with the Business Planning team to embed risk into the Service Governance model and are engaging various groups to be part of this initiative.

Next, we will be designing the risk governance process in collaboration with others and determining which services and departments will be part of the pilot. We will provide a further update on the progress of this initiative in the year-end report.

As part of enhancing the governance, we will also be developing a Fraud Risk Management Framework. We will work closely with subject matter experts and various business units and will seek input from the City Auditor's Office to incorporate their insight based on audit and investigative leading professional practices. This framework will enable the organization to identify the risk of fraud, and to track and address any fraud-related risks that it may face.

Risk Governance - Wholly Owned Subsidiaries

In 2021, Ernst & Young, directed by Audit Committee, conducted a shareholder alignment review of The City's seven Wholly Owned Subsidiaries (WOS). The report (AC2021-1354) included recommendations that provide opportunities for The City and the Wholly Owned Subsidiaries to enhance their relationship and to collaboratively address gaps in governance, risk management and other areas.

Currently in Phase 3 (detailed implementation), the work on the recommendations is progressing with EY's engagement concluding in 2023 July. The project will then shift to Phase 4 with the Enterprise Project Management Office and Execution Support continuing to ensure that all parties seek ongoing opportunities to adapt the relationships and to identify and implement new leading practices related to risk management and governance.

2. Improved Reporting

We are continuously improving risk reporting for the ELT, Audit Committee and Council by enhancing or developing new ways to present risk information and introducing new risk concepts based on best practices. One of the new risk concepts that we introduced in the 2022 year-end report was the idea of determining a Target Risk Rating for each of the Principal Corporate Risks (PCRs). We are piloting this concept with subject matter experts and the ELT.

Work on improving risk reporting throughout the organization is also progressing. We are focusing on increasing the objectivity of risk information by advancing the use of data to support risk assessments and by providing more objective guidelines for rating risks. This will result in more consistent and data-driven reporting, giving invaluable insights to ELT and Council as they make strategic decisions.

We are collaborating with different services and departments to help identify risk metrics that will aid in assessing the Principal Corporate Risks through data-driven analysis. These metrics are expected to be part of the semi-annual risk reports, starting in Spring 2024, and will offer insight into the pressures that affect the PCRs and how The City's strategies impact them.

We are working together with Subject Matter Experts to enhance risk impact guidelines to reduce subjectivity and improve the clarity of the impact criteria. The current 5X5 Risk Rating Matrix considers the likelihood of a risk occurring and its impact on results. However, we are broadening impact categories and providing more quantitative rating guidelines to enable services to rate risks more objectively and consistently.

Lastly, we are using Corporate Operating Risks to better categorize, theme, understand and communicate risk patterns during the cross-corporate risk review process. More in-depth information on the Corporate Operating Risks will be shared in the 2023 year-end report.

3. Risk Appetite/Tolerance

We are focusing on three key areas to improve risk appetite and tolerance.

Developing Metrics

We continue to improve risk metrics to drive more meaningful risk discussions, support risk ratings and help develop specific risk appetite levels, which allows us to align our risk discussions with specific metrics. The City uses an evidence-based approach to all decision making, and this applies to risk management decisions as well. By improving our risk metrics, we can effectively manage and respond to risk and provide clear communication about whether risks are within or outside of the organization's desired risk appetite.

Embedding Risk Appetite

We are embedding risk appetite and tolerance discussions into the risk governance framework. We are also strengthening and clarifying roles and responsibilities related to risk governance to ensure that decisions related to risk appetite can be more easily implemented, communicated, and facilitated. Work on risk governance will also enable discussions on risk escalation to ensure the right people understand and respond to the right risks.

Target Risk Ratings

Work to establish target risk ratings for our PCRs continues. Taking a proactive approach enables the organization to set a desired level of risk and manage it accordingly. The organization maintains a reasonable risk appetite while ensuring that risk response strategies are effective and that internal and external factors that may impact the risk are considered. By furthering target risk ratings, we are seeing the application and use of risk appetite principles for our top, most strategic risks.

4. ERM Integration

We continue to integrate the ERM framework across the organization to improve the consistency of risk management practices and to support the advancement of risk culture and risk maturity.

Engagement is underway, through leadership team roadshows, to demonstrate the value of risk management, help advance risk culture and maturity, and assist the organization by using targeted support to take advantage of opportunities.

We continue to offer customized tools, interactive risk workshops, and consulting services for significant projects, programs, and initiatives. We highlight that risk is important to be considered in decision-making processes. Additionally, we collaborate with other groups to standardize our risk methodologies and improve consistency in risk management practices throughout the organization.