

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.

Risk Maturity

On 2022 December 12, the Executive Leadership Team (ELT) approved Advanced (Tier 4) as the desired level of risk maturity for the organization. This was communicated to the Audit Committee on 2023 January 18 (AC2023-0011). For descriptions of each of risk maturity levels within the Risk and Insurance Management Society (RIMS) Risk Maturity Model, please refer to Appendix 1.

The ERM team was directed to develop a detailed plan to achieve an Advanced (Tier 4) level of maturity. The multi-phase risk maturity plan was endorsed by the ELT on 2024 March 25. This plan will support the enhancement of risk tools and expertise throughout the organization, with the ERM team leading and supporting risk practices to better meet the needs of The City. Currently the ERM team is focusing on risk analytics, governance, and strategic integration. The Audit Committee will see the outcomes of this effort in our regular risk updates.

ERM Focus Areas

There were four focus areas previously identified for 2023-2026 to further our progress toward the desired level of maturity. These focus areas were incorporated within the recently approved Risk Maturity Plan and an update on each is outlined below. In addition, a Fraud Risk Management framework will be developed to further support the risk management process at The City.

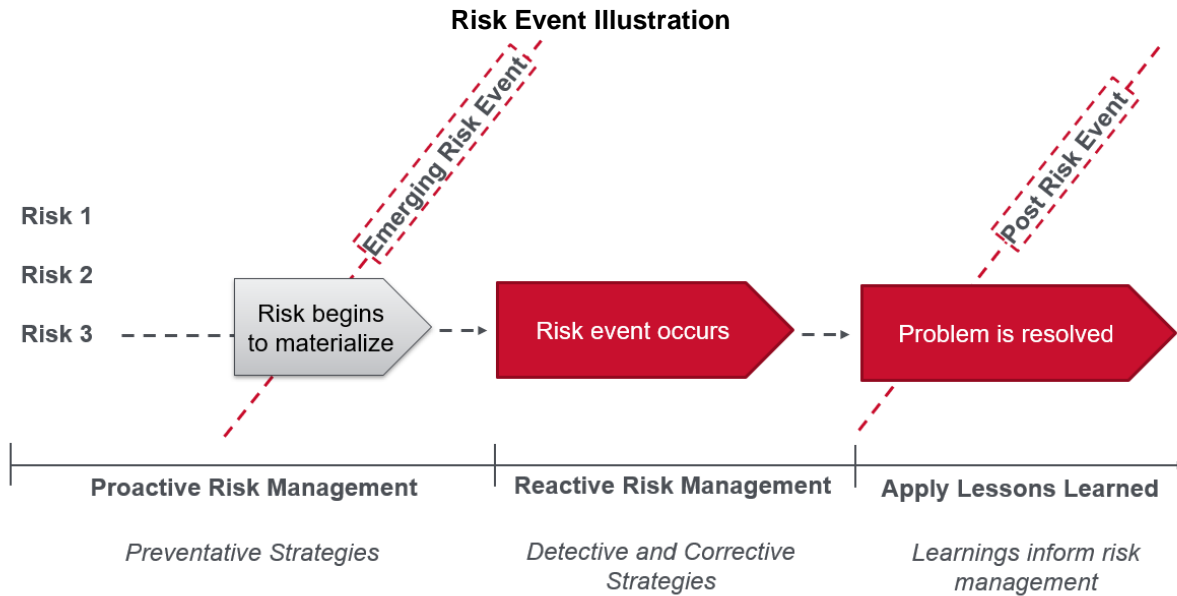
1. Risk Governance

Risk Management Approach

Risk management plays an important role at The City. It enables us to proactively identify and manage potential risks that could impact the achievement of our results. This allows us to plan and be better prepared for future uncertainties.

There are two risk management approaches as it relates to risk events. Proactive risk management focuses on identifying possible risks and aims to prevent or reduce the likelihood or impacts of those risks happening. Whereas reactive risk management tries to reduce the impact of the risk once it has already materialized or speed up the organization's recovery from the event. Therefore, proactive risk management focuses on implementing strategies which will prevent the risk from occurring. In contrast, reactive risk management focuses on strategies that will help detect risk manifestation or reduce the impact.

The visual below illustrates the function of proactive and reactive risk management in the context of a risk event:



Every risk event is an opportunity to learn from and is a valuable input into risk management considerations. The recent feeder main break is another such opportunity. We look forward to applying the lessons learned from it, both through our ongoing internal work and the independent review.

Risk Governance Framework

It is also important to highlight that the foundation for a strong and proactive risk management culture is a comprehensive risk governance framework, which is the architecture within which risk management operates. This framework establishes the approach to risk management and enables sound and informed decision-making.

We are in the process of developing a comprehensive risk governance framework for the organization. Working together with Operational Services as a pilot area, draft guidelines have been created for regular risk updates to Directors and General Managers. Additionally, a draft risk escalation criterion has been developed for escalating risks to the appropriate level of leadership as soon as they have been identified. The goal is to provide decision-makers with relevant risk information in a timely manner. Our next step is to share the guidance with others and obtain feedback.

A successful pilot was conducted with Waste and Recycling services. Their risk processes were benchmarked against the Advanced (Tier 4) level of risk maturity. Since they generally met this level, we plan to use their example to illustrate risk governance at the service level, providing insights for other services as they enhance their risk maturity.

Key observations from the pilot revealed that the Risk Champion plays a crucial role. They actively engage with subject matter experts (SMEs), acting as both the main point of contact for risk and a central hub for risk intelligence. The Risk Champion proactively updates the service risk register throughout the year based on new risk information. These processes are important inputs into a successful risk governance framework.

Building on best practices, we propose establishing Risk Champions at both the service and departmental levels. This step will enhance the sharing of risk information across decision-makers and promote cross-corporate effectiveness.

In the coming months, we will explore ways to further integrate SME input into the semi-annual Corporate Risk Review process. Additionally, we will continue raising awareness and understanding of risk governance throughout the organization.

We will continue to advance the risk governance framework across the organization and are committed to continuous improvement in helping the organization managing risks effectively.

Risk Governance - Wholly Owned Subsidiaries

In 2021, Ernst & Young (EY) conducted a shareholder alignment review of The City's seven Wholly Owned Subsidiaries (WOS) at the direction of the Audit Committee. The resulting report (AC2021-1354) contained 24 key recommendations aimed at enhancing the relationship between The City and its WOS. These recommendations addressed gaps in governance, risk management, and other areas. The final phase of the alignment review concluded in 2023, and Council approved the implementation of EY's recommendations on 2024 January 30.

One of EY's recommendations was for The City to develop a "WOS Risk Presentation" template with clear and consistent expectations for all WOS on the Audit Committee risk presentation requirements. The ERM team developed this template jointly with the project team and it has been delivered to the WOS for their use. With the delivery of the approved template, EY now considers this recommendation to be "complete". The risk presentation template will be completed annually by all WOS as part of the WOS reports to the Audit Committee, starting in 2024 July. The risk presentation will also be submitted annually to the ERM team for input into our risk report, starting with the 2024 Year-End Principal Corporate Risk report.

Another EY recommendation involves conducting periodic reviews of WOS governing documents. The first review is scheduled for 2024. This review includes assessing the latest Unanimous Shareholder Agreements, Bylaws, and other governing documents for potential updates. The ERM team actively supports this review by providing a risk-focused perspective.

2. Improved Reporting

5x5 Risk Matrix - Impact Guidelines

The ERM team is actively working on improving the risk impact guidelines embedded within the 5x5 Risk Rating matrix. To achieve this, we are working closely with Subject Matter Experts (SMEs). The primary objectives are to broaden the existing impact categories and enhance the criteria within them. By doing so, we aim to reduce subjectivity and enable services to assess risks more objectively and consistently.

PCR – Descriptions and Key Risk Metrics

We finalized updates to the PCR descriptions which resulted in a better alignment to our risk description structure and a clearer definition for each PCR. The updated PCR definitions were approved by the ELT on 2024 January 8.

In 2023, we worked with teams from each of the PCRs to identify Key Risk Metrics (KRM) that would help us assess the PCRs through data-driven analysis. A list of proposed KRMs was shared with the Audit Committee

on 2024 January 18 (AC2024-0038)) with a plan to begin reporting on the available KRMs in 2024 June. Several KRMs have been included in this risk report (see Attachment 3 and 4 (Confidential)) and we will begin reporting on the remaining ones starting in 2024 December.

We are also working with teams from Corporate Economics and Regulatory Affairs and Performance Measurement and Reporting areas to leverage risk data to further integrate corporate reporting and risk communication. Through this collaboration we are integrating service risks into the Mid-year Progress Report. This underscores the importance of our semi-annual Corporate Risk Review process and ongoing periodic risk discussions and updates at the different levels of the organization. The service risk register updates, which are one component of this process, provide valuable information for progress reporting purposes. Similarly, the progress reporting process reinforces the risk register update process by triggering a review of the risks and offering information that can be an input into the service risk register.

This integration and strategic alignment streamlines reporting processes, eliminating duplication of effort, and provide a comprehensive view of how risks impact service performance. By integrating risk management with performance reporting, we can enhance decision-making and drive continuous improvement across the organization.

Other

Our efforts are focused on improving our risk profile by enhancing both internal and external environmental scans. To achieve this, we draw insights from a variety of sources, including our valued partners in Corporate Strategy, Strategic Foresight, and other internal teams. Additionally, we incorporate relevant themes derived from bottom-up analysis and pertinent reports.

We will be exploring ways to integrate significant risks from other areas and major projects, such as Green Line, into The City's risk profile to provide a comprehensive, integrated, and transparent view of significant risks to the organization.

We continuously refine our Corporate Operating Risks (CORs) based on valuable feedback and input from subject matter experts. These refined CORs play a pivotal role in categorizing risks within our Service Risk Register submission process. Furthermore, they contribute significantly to our comprehensive bottom-up risk summary.

3. Risk Appetite/ Tolerance

We are focusing on building awareness and understanding of risk appetite and tolerance across the organization and will continue to engage the ELT and Audit Committee on this in 2024. We are developing other risk management components, such as Key Risk Metrics as noted above, which will be an input into establishing the risk appetite and tolerance levels. We will also perform further analysis to support the ELT and Audit Committee in defining the risk appetite and tolerance for the organization.

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. We support the organization by developing risk guidance, customized tools, and risk workshops. We also provide risk consulting services for different projects, programs, and initiatives.

One significant process that we support on an ongoing basis is the Service Plans and Budgets process where we facilitate risk discussions, provide risk expertise, and help integrate risk considerations into the submission requirements and reporting to the ELT and the Council.

Fraud Risk Management Framework

We kicked-off the Fraud Risk Management Framework initiative with subject matter experts from various business units. This framework will support the organization in identifying, tracking, and addressing any fraud-related risks that it may face. We will be continuing this work for the remainder of 2024.

Appendix 1: RIMS Risk Maturity Model

Risk Maturity Level	Characteristics
Emerging - Tier 1	No formal capability in place. Risk management is individually driven. Decision making is subject to inconsistent risk-related principles and results.
Adopting - Tier 2	Capability exists on paper. Organization does not have clear engagement from stakeholders. Decision making is primarily driven by qualitative risk considerations.
Established - Tier 3	Capability exists in repeatable processes; senior level understanding of objectives for managing risk and key program elements exist. Decision making is informed by risk data.
Advanced - Tier 4	Capability exists in repeatable processes informed by external context; senior level understanding flows to middle management; business and corporate alignment to risk management framework exists. Decision making is influenced by risk analytics.
Leading - Tier 5	Capability exists in a continuous improvement cycle, informed by internal and external inputs. Decision making is future oriented, proactive, and guided by risk analytics, insights, and risk-related principles.