

**City Manager's Office Report to  
Audit Committee  
2018 January 26**

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## **Annual Principal Corporate Risk Report**

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### **EXECUTIVE SUMMARY**

Integrated Risk Management (IRM) enhances The City's ability to establish a reliable basis for decision making and planning while encouraging proactive rather than reactive management. The Audit Committee oversees The City's IRM and, twice a year, receives and reviews reports from Administration regarding IRM. This report provides Audit Committee with an update on the Principal Corporate Risks that could affect the achievement of Council Priorities and the Council-approved Leadership Strategic Plan (LSP).

#### **ADMINISTRATION RECOMMENDATION:**

That the Audit Committee:

1. Receives this report for information.
2. Recommends that Council receive this report for information; and
3. That the Attachments remain confidential pursuant to Sections 24 (1) (a)&(b) of the Freedom of Information and Protection of Privacy Act for a period of 15 years.

#### **RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2018 JANUARY 26:**

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That Council:

1. Receive this Report for information; and
2. That the Attachments remain confidential subject to Section 24 of the *Freedom of Information and Protection of Privacy Act* for a period of 15 years.

### **PREVIOUS COUNCIL DIRECTION / POLICY**

The Audit Committee Bylaw (48M2012) states that the Audit committee, among other things, is responsible for "overseeing the process of The City's Integrated Risk Management System." The purpose and role of Audit Committee is to oversee The City's process of risk identification, analysis and management procedures to mitigate risk. Specifically, regarding risk management, the Bylaw states that Audit Committee receives and reviews, at least twice a year, reports from Administration regarding The City's Integrated Risk Management (IRM).

On 2017 December 14, the Audit committee approved its 2018 Work Plan (AC2017-1136) which included consideration of the Annual Principal Corporate Risk Report on 2018 January 26. Consistent with the 2018 Work Plan, this report focuses on the Principal Corporate Risks (updated as of 2017 December 12). Audit committee's 2018 Work Plan also includes an update on the IRM Model and Framework, which will be brought forth on 2018 July 25.

### **BACKGROUND**

The City Manager's Annual Principal Corporate Risk Report to Audit committee is one of many integrated and ongoing streams of work undertaken to identify, analyze and appropriately manage risk. Across the organization, work is undertaken by business units, departments and the Administrative Leadership Team, with the most strategic information about risks and the IRM process brought forth to Audit committee.

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### INVESTIGATION: ALTERNATIVES AND ANALYSIS

#### Principal Corporate Risk Summary (Attachment 1)

Attachment 1 is the Principal Corporate Risk Summary (updated as of 2017 December 12) and forms the basis of this report. The Annual Principal Corporate Risk Summary is a key element of The City's IRM System and supports the organization's management processes with risks considered in terms of the effect of uncertainty on objectives. Risks are described, assessed and managed from both a threats and opportunities perspective. Risk management resources are aligned to the areas of highest risk or significant opportunity, to ensure that The City gets the best possible value from its risk management efforts.

The Principal Corporate Risk Summary Report (Attachment 1) has been updated from the version that was presented to Audit Committee on 2017 January 19. The process to update the Principal Corporate Risks involves a combined bottom-up, top-down approach to risk management. Consistent with the continuous improvement ethos of The City's Performance Management System, this process continues to evolve and improve. The points below describe the risk updating process, and include highlights of process improvements over the past year.

#### Bottom-up approach:

- Identification of risks at the divisional and business unit levels in the organization involves business units undertaking a risk review process and completing an update of their business unit risk register. The review supports business planning activities and includes the efforts of Business Planners/Strategists, Leaders, Managers, and Directors.
- Consolidation of risks at the departmental level across the organization includes departments reviewing business unit risk registers and preparing a departmental risk register. The process includes Departmental Risk Leads, Directors and General Managers.
- **New** – This year, in support of the bottom-up process, a cross-departmental workshop was held in 2017 November to review the departmental risk registers and to discuss common, notable and emerging risks. In addition, departments provided input into the updating of the Principal Corporate Risks.
- Following the workshop, an extensive analysis of each departmental risk register was undertaken. The departmental findings, along with workshop feedback, were included as suggested updates to the draft Principal Corporate Risk Summary Report.

#### Top-down approach:

- The draft update to the Principal Corporate Risk Summary was circulated to ALT members for review and consideration as part of the top-down review process.
- **New** - This year, ALT members were provided with suggested edits to all the Principal Corporate Risks during the draft review stage. This is a change from the past whereby ALT members were provided only the draft risks for which they are the risk owner in the initial circulation. The broader circulation at the draft stage was intended to provide additional opportunities for ALT to be engaged in the top-down risk review process.
- **New** – This year, additional information (including questions and suggestions from the department registers) was included in the circulation of the Principal Corporate Risks to ALT. The additional information was intended to provide context to support the top-down review process. Providing this additional information (bottom-up inputs) strengthens ALT members' decisions about whether to accept or challenge the suggested edits/update.

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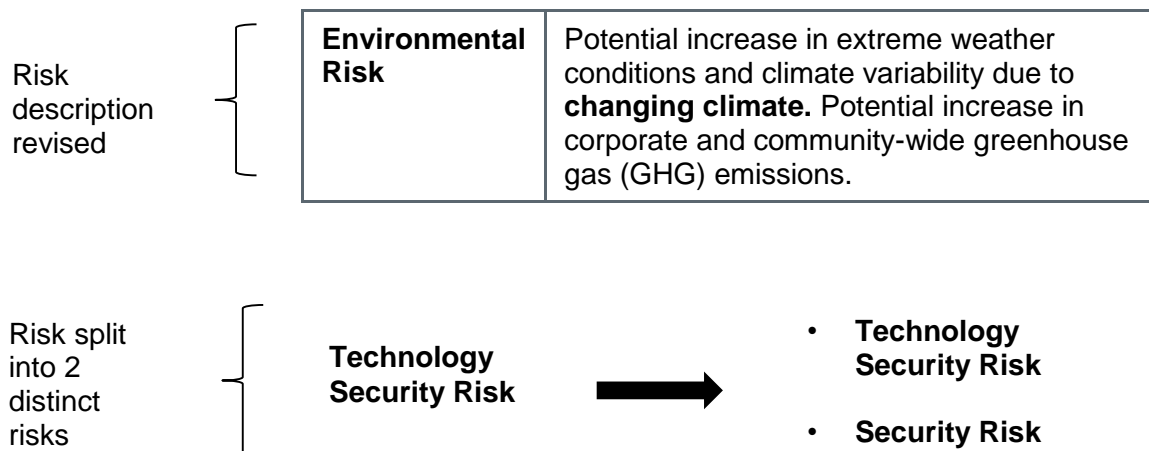
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The recent combined bottom-up and top-down review has resulted in changes to the Principal Corporate Risks since 2017 January 19. Attachment 1 provides a detailed list of the Principal Corporate Risks including the risk rating, risk trend, summary of risk rating and summary of improvement activities.

### Changes to the Principal Corporate Risks (as of 2017 December 12)

The most significant changes to the Principal Corporate Risks, since the risks were presented to Audit Committee on 2017 January 19 (AC2017-0020), include refining the description of the Environmental Risk to be explicit about the changing climate and separating the Technology Security Risk into two (2) distinct risks: Technology Security Risk and Security Risk.



The changes to the Principal Corporate Risks are based on the global risk profile as well as feedback from the departmental registers during the fall risk review. The changes to the Principal Corporate Risks (ALT2017-1091) were confirmed by ALT on 2017 December 12.

### Summary and Trends in Risk Ratings (Attachment 2)

**(New)** As another enhancement to the risk management process, this report also includes an at-a-glance Summary of Risk Ratings and Trends for the Principal Corporate Risks (Attachment 2). This style of reporting was introduced to ALT in 2017 June 27 to show the progression of the risk ratings and trends over time. This format has been well received by senior leaders as it provides an at-a-glance comparison and easy identification of risks that may require further discussion.

### Next Steps in the Evolution of Risk Management (Attachments 3-6)

The corporate risk management framework, tools and practices continue to evolve and improve in ways that are designed to enhance the discipline of risk management and further integrate it with other aspects of The City's Performance Management System. Several enhancements are currently under development including: refinements to the existing risk matrix to promote objectivity and transparency, introducing the use of indicators on all corporate risk registers to

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promote evidence based decision making, incorporating performance measures and indicators into the risk management process, and using a new RBA format to present risk information. Illustrating the last point, this report includes Results Based Accountability (RBA) style reporting for 4 of the 16 Principal Corporate Risks: Environmental Risk, Health & Safety Risk, Financial Risk, and Technology Security Risk – Phishing, as Attachments: 3, 4, 5, 6. The attachments are being presented to Audit Committee for the purpose of illustrating the potential benefits and opportunities of using an RBA style presentation format.

### **Stakeholder Engagement, Research and Communication**

The completion of the twice-per-year risk review process requires the coordination and support of divisions, business units, departments and ALT. The process promotes the development of risk competency across the corporation and fosters a risk culture.

Administration is continuously seeking opportunities to advance the proactive use of risk related information to address risks that may affect or contribute to The City's ability to achieve its objectives. In addition to regularly reviewing leading practices, internal stakeholder input is used to continuously improve established practices, and internal stakeholders will also be involved in testing and roll-out of any changes.

### **Strategic Alignment**

On 2014 September 15, Council approved the Leadership Strategic Plan (LSP) (C2014-0703) which includes the implementation of the Performance Management System, comprising the following five components:

- Service Review & Improvement
- Service Plans and Budgets
- Performance Measurement & Accountability
- Integrated Risk Management
- Individual Performance Development



The Performance Management System is a disciplined approach to continuous improvement that is designed to increase the organization's capacity, connect work across the organization, inform decision-making and improve the achievement of the organization's results. The components of the system, including risk management, are mutually reinforcing and are embedded into major organizational processes and projects.

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### **Social, Environmental, Economic (External)**

Effective risk management will help to ensure The City's ongoing resilience and ability to serve citizens in accordance with The City's strategic goals. These include, the social, environmental and economic goals expressed in the Council Priorities.

### **Financial Capacity**

#### ***Current and Future Operating Budget:***

Activities related to the IRM process are within approved budgets and programs.

#### ***Current and Future Capital Budget:***

None related to this report.

### **Risk Assessment**

The primary risk associated with this report is that the Principal Corporate Risks (Attachment 1) are not recognized by business units and departments as the most strategic risks facing The Corporation and therefore are not used as a reliable basis for decision making. To mitigate this risk, business units and departments are actively involved in the identification and review of the Principal Corporate Risks through a bottom-up review process. As well, the Administrative Leadership Team (ALT) participates in a top-down review process to confirm the Principal Corporate Risks. This approach promotes collective understanding of the risks and ensures relevance and application across the corporation. Additionally, to ensure the Principal Corporate Risks are comprehensive, current and reflective of the external and internal threats and opportunities facing The City, the risk review process occurs twice a year (spring and fall), with the most strategic risks brought forth to Audit Committee on an annual basis. The City's Principal Corporate Risks are intentionally communicated to departments and management teams to support decision making and to inform planning.

Another risk is that the Integrated Risk Management (IRM) program and associated risk process are not fully adopted or utilized across The Corporation. To mitigate this risk, IRM is part of The City's Integrated Performance Management System and is aligned with the business planning and budgeting process. As within previous business planning cycles, consideration of risks will be a key factor informing One Calgary 2019-2022 Service Plans and Budgets. Given the city's current economic context, the 2019-2022 plans and budgets will need to consider risk in a different way, re-thinking assumptions, and placing considerable more emphasis on weighing the costs as well as the benefits of risk mitigation strategies to ensure they provide good value. Corporate Initiatives is working closely with the One Calgary program to ensure risk management is effectively integrated into the One Calgary program.

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### **REASON(S) FOR RECOMMENDATION(S):**

This report is provided to Audit Committee to support the Committee in its role to oversee the process of risk identification, analysis and management procedures to manage risk, by providing up-to-date information on risk management and mitigation work that Administration has completed, and the results of that work. It is recommended that the Principal Corporate Risk Summary (Attachment 1) and Attachments 2, 3, 4, 5, 6 be reviewed and discussed in-camera to maintain a balance between comprehensive reporting and discussion of the principal risks facing The City, while protecting the interests of the organization from unintended harm.

### **ATTACHMENT(S)**

1. Attachment 1 – Principal Corporate Risk Summary Report
2. Attachment 2 – Principal Corporate Risks – Overview of Risk Ratings and Trends
3. Attachment 3 – Environmental Risk – RBA Format
4. Attachment 4 – Financial Risk – RBA Format
5. Attachment 5 – Health & Safety Risk – RBA Format
6. Attachment 6 – Technology - Security Risk: Phishing - RBA Format