HALIFAX

Enterprise Risk Management
A Tool to Maximize Opportunities

Audit and Finance Standing Committee

May-11-2016

Agenda

Introduction

What is "Risk"?
What is "Risk Management?"

HRM Risk Strategy

Risk approach - Culture Change
Background/Update
Strategic/Corporate Risks
Operational Risk – targeted approach

Risk Roles and Responsibilities

Regional Council
Audit and Finance
Administration

What is Risk?

Organizations of all types and sizes face internal and external factors and influences that make it **uncertain whether and when they will achieve their objectives**.

The effect this uncertainty has on an **organization's objectives is "risk"**

**All activities** of an organization involve risk.
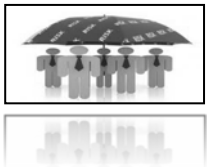
What is Risk Management?

The structured and disciplined efforts undertaken to identify/mitigate risk and reduce uncertainty in the achievement of organizational goals

Risk is implicit in all decisions we make

Decision-making is, in turn, an integral part of day to day existence - nowhere more prominent in an organization than at times of change/when responding to external developments

That is why **risk management** is so closely linked to **"future proofing",** the exclusive process of trying to anticipate future developments, so that action can be taken to minimize possible negative consequences, and to seize opportunities
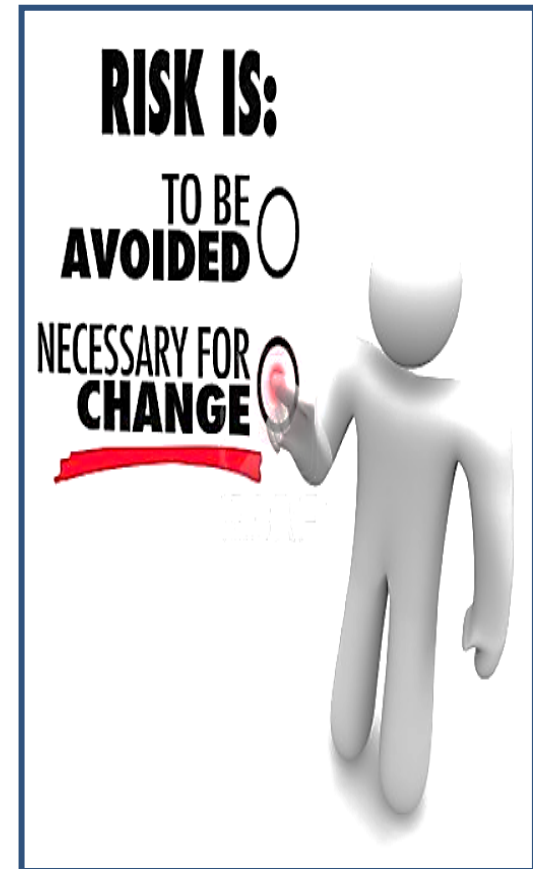
Enterprise Risk Management (ERM)

"Enterprise Risk Management (ERM) is a process effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

Strategy

Council Priorities/
Executive Priorities

Annual Business
Unit Plans

Individual Staff PDP's

Enterprise Risk Management

- **I**s a process, ongoing and flowing through an entity

- Effected by people at every level of the organization

- Applied in strategy setting

- Applied across the enterprise

- Designed to identify potential events that, if they occur, will affect the entity and to manage risk within its risk appetite

- Able to provide reasonable assurance to an entity's management and board of directors

- Geared to achievement of objectives in one or more separate but overlapping categories

Risk Management Process

| Establish the Context | Identify the stakeholders, documents, objectives and other materials relevant to the area/activity/process under review. Clearly state the scope of the risk assessment. |

Risk Assessment

| Identify Risks | Identify the risks that can impact the successful achievement of the stated objectives. |

| Analyze Risks | Validate and prioritize the identified risks for the purpose of determining which risks require increased attention. Risks should be prioritized using the Department's Likelihood and Consequence scales. |

| Evaluate Risks | Determine total risk rating, determine if a risk is deemed acceptable by mapping the ratings against the risk evaluation framework. |

| Treat Risks | Develop and implement specific treatment action plans which include consideration of funding / resources required. |

| Communicate & Consult | Communicate and report on a periodic and scheduled basis regarding the status of risk with internal and external stakeholders, as appropriate. |

| Monitoring & Review | Ongoing monitoring of the identified risks as well as the effectiveness of the proposed treatment action plans. |

The Underlying Premise of ERM

Every entity exists to provide value for its stakeholders.

All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value.

ERM enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

live in HRM
RESIDENTS

MAYOR
Halifax Regional Municipality

Councillors
Halifax Regional Municipality

HRM's City Hall
GOVERNMENT

# Risk Management is not an "Add On"

ERM supports the improved decision-making and execution of HRM's responsibilities and the **achievement of its strategic objectives.**

The great added value benefit is that it will enable HRM to apply a **Strategic Lens to plan ahead thereby "future proofing" the organization.**

ERM's goal is to give people the foresight, agility, and judgment to handle unexpected threats and opportunities that affect their organization.

Risk Impact Categories
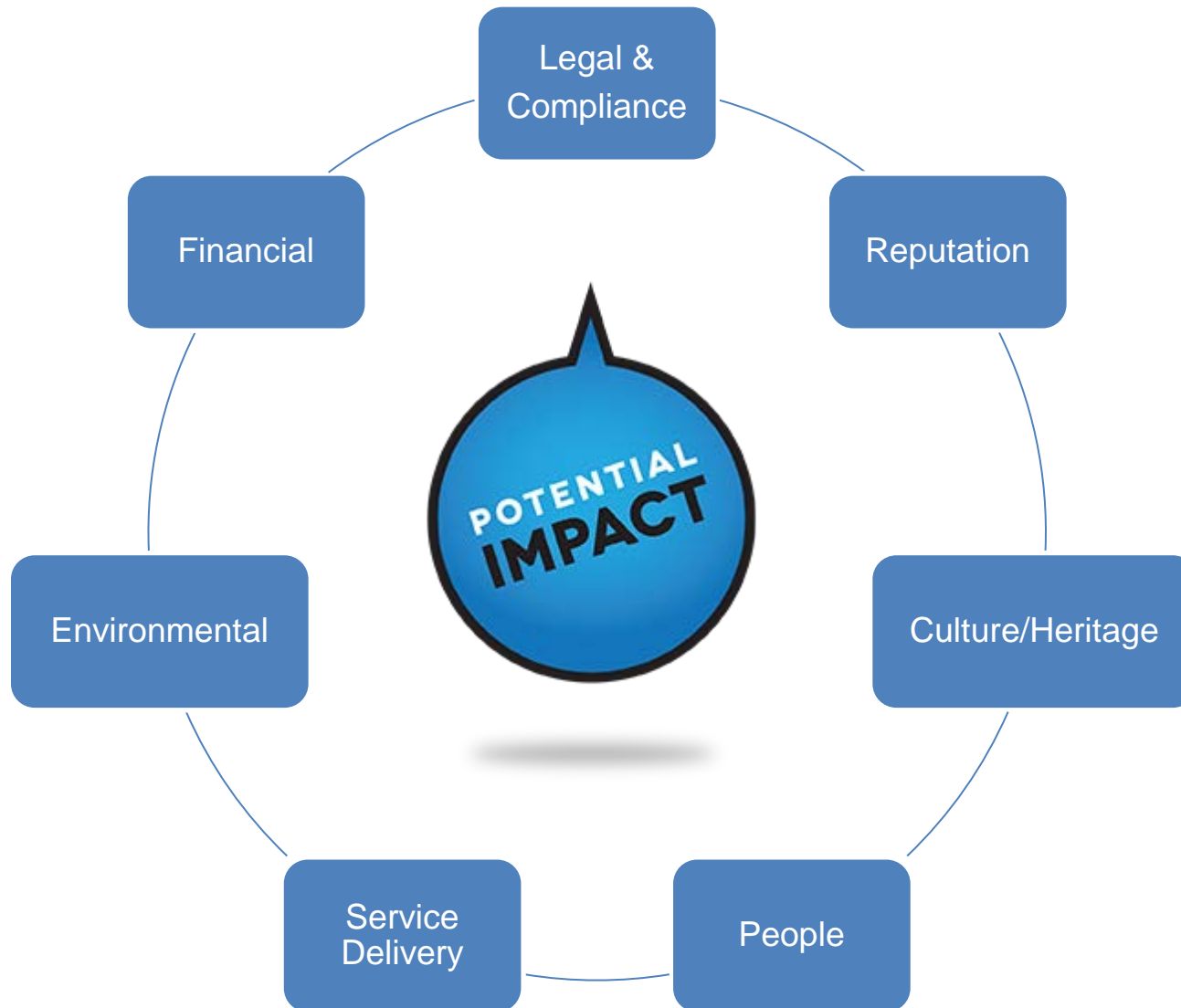
Risk Treatments

Decide not to proceed with the activity likely to generate the risk, where practical. Alternatively, there may be another way to reach the same outcome.

Avoid

It may be possible to shift some or all of the responsibility for the risk to another party through insurance, outsourcing, joint ventures or partnerships

Reduce

Risk

Transfer

Risk can be treated by:
- Reducing the likelihood of the risk occurring - for example, through quality control processes, auditing, compliance with legislation, staff training, regular maintenance or a change in procedures
- Reducing the impact if the risk occurs - for example, through emergency procedures, off-site data backup, minimising exposure to sources of risk

Accept

If it cannot be avoided, reduced or transferred, a risk may be accepted. However, adequate plans for managing and funding the consequences of the risk if it occurs need to be developed.

- Opportunity to support Council in their **strategic leadership**

- HRM **does not have a comprehensive approach** to assessing risk (ad hoc approach)

- HRM and its managers **are exposed to risks** at various levels cross-divisionally

- Need to **augment the existing operational risk management** strategies and techniques currently practiced by the Municipality with a more "strategic" focus to the organization

- Because HRM has an opportunity to be **pro-active**   (Risk-based governance recommendation by HRM Auditor General)

HRM Approach to Risk Management

- No "big bang" approach
- Incremental change is more sustainable
- Don't "boil the ocean", focus on key areas first
- Minimize bureaucracy required to implement
- Ensure accountabilities are well understood

Changing culture takes time and patience.
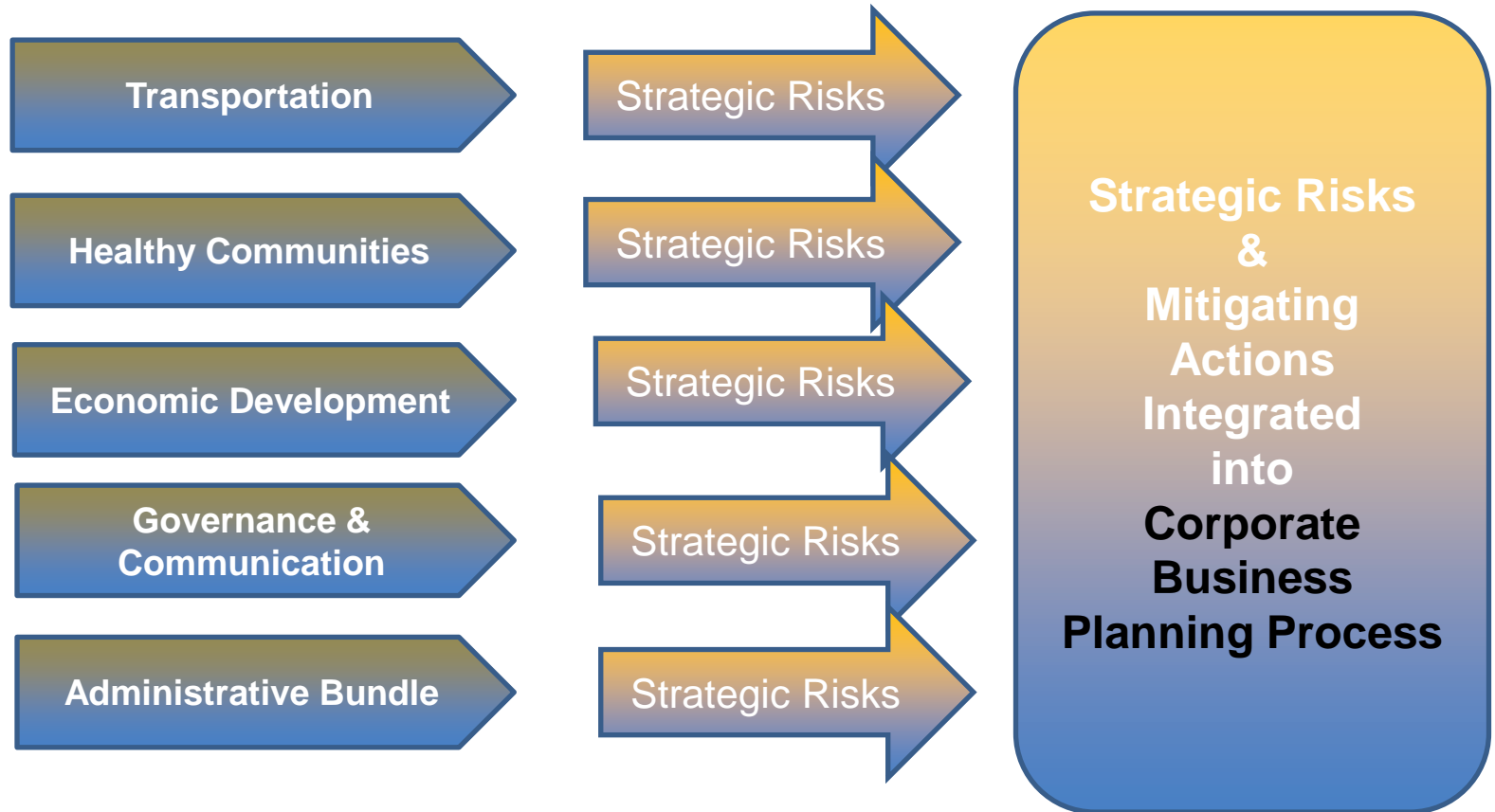
Background/Update

- Municipal Auditor General Recommendations
- Staff Research – leading practices
- Senior Leadership Risk Appetite Workshop
- Strategic/Corporate Risk
  - Identification
  - Rating
  - Treatment/Mitigation Plans
- Inventory of Operational Risk Practices
- Risk Strategy
- Risk Section in Council Reports
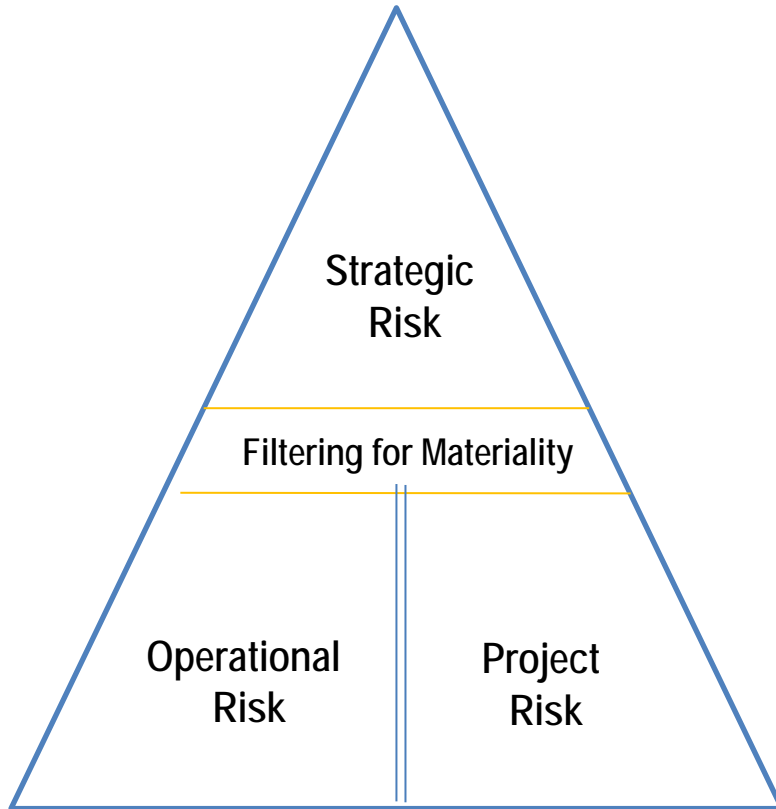
Strategic/Corporate Risks

Strategic risks are those that are identified as likely to have an impact on the achievement of HRM's Priority Outcomes or Key Policy Priorities.   One or more of the following criteria must apply:

- The risk relates directly to one or more of the Priority Outcomes or Key Policy Priorities

- A Business Unit risk that has significant impact on multiple operations if realized

- The risk has been identified as present for a number of Business Units

- There are concerns over the adequacy of Business Unit arrangements for managing a specific risk

Strategic Risks

Transportation	Strategic Risks	**Strategic Risks & Mitigating Actions Integrated into Corporate Business Planning Process**
Healthy Communities	Strategic Risks	
Economic Development	Strategic Risks	
Governance & Communication	Strategic Risks	
Administrative Bundle	Strategic Risks	

HRM'S ERM Model

Strategic Risk

Filtering for Materiality

Operational Risk

Project Risk

Corporate Risk Management

Escalation of key risks

Business Unit Risk Management

Operational Risk Priorities

Operational Risk Practice Inventory

- We are managing risk well if not in the context of an overall risk framework.
- No need to add excessive administration/oversight

What are the operational areas of greatest risk?

- Environment
- Public safety
- Employee health and safety
- Workforce planning – recruitment and retention

Approach to Operational Risk

Target areas of greatest risk

- Inventory operations that impact higher risk areas
- Apply a "risk lens" to those operations
    - Identify
    - Evaluate
    - Treat (Accept, Reduce, Transfer, Avoid)
    - Report and monitor
    - Escalate when necessary

Benefits of Proposed Approach

- Address areas of greatest risk first
- Minimize administrative impact on operations
- Touch many areas at once (culture change)
- Lessons learned can be applied to subsequent areas

Risk Roles and Responsibilities

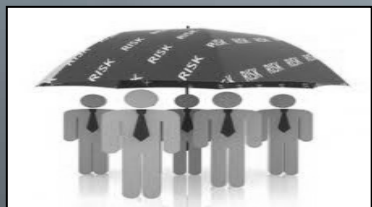| Tier	Responsibility
Chief Administrative Officer	Overall accountability for risk management. Oversee the significant risks faced by the organization in delivery on priorities, receiving regular reports from Directors identifying the significant risks and providing assurance that appropriate mitigation action has been identified and implemented.
Chief Financial Officer or Risk Management	The 'Risk Management Champion', promoting risk management and leading Senior Management engagement.
Audit & Finance Committee	**Providing assurance to the Council on the effectiveness of the risk management framework and its application.**
Executive Management (CAO/DCAO)	Promoting, steering and monitoring risk management for the organization.
Business Unit Directors (SMT)	Accountable for effective risk management within their Business Units – this accountability cannot be delegated. Directors will provide assurance as to the effectiveness of the internal control environment.
Business Unit Risk Coordinators	Promoting, facilitating and championing the implementation of risk management within their BUs. Provide advice and guidance on the application of the Risk Management Strategy. They are the first point of call for risk related matters for their Business Unit providing operational support.
Service/Project Managers	Accountable for effective management of risk within their areas of responsibility
Risk Owners	The person that is accountable for the overall management of the risk, including bidding for resources to control the risk.
Control Owner	The person that has accountability for a particular task to control an aspect of the risk, either the Cause or the Effect. The role is accountable to the Risk Owner.
Employees	Maintaining an awareness / understanding of key risks and management of these in day-to-day activities. If an employee does not have control over the occurrence of a risk, the employee will implement strategies to reduce the impact of the risk if it does occur.

Audit and Finance Next Steps

- Review Corporate Strategic Risk Register
- Review Risk Strategy Implementation Plan
- Monitor risk section in Council Reports
- Consider Reporting cycle/format

Discussion