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**Enterprise Risk Management  
(Corporate Business Risk Planning)**

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# Enterprise Risk Management (Corporate Business Risk Planning)

## 1. Introduction

The management of risk is a key element in the governance of an organization. The following definition of governance is from the City of Edmonton Audit Committee Handbook:

“Governance is a process of overseeing an organization’s management of risk and control processes and is ultimately the responsibility of an organization’s board of directors.”

The risk that something bad will happen (e.g., decreased customer satisfaction) or something positive will not happen (e.g., a missed opportunity) is a part of daily operations. Because different stakeholders place different values on things, they also view risk differently; consequently, attempts to manage risk informally may not be fully effective from an organizational perspective.

Management is responsible for identifying and managing risks. Enterprise Risk Management (ERM) supports management in fulfilling their governance role by providing a common framework for managing those risks that may impact business objectives. Benefits of ERM include the ability to demonstrate risks are being optimized, explicit understanding of risks, and balancing risk management measures against stakeholder interests and resource availability. There are a number of definitions for ERM. The definition adopted in the City’s risk management model reads:

“Enterprise Risk Management is a **continuous, proactive** and **systematic** process to understand, manage and communicate risk from an **organization-wide perspective**. It is about making strategic decisions that contribute to the achievement of an organization’s overall corporate objectives.”

For an organization to achieve the maximum benefit from ERM, it must recognize that it is not just a process to use, but a risk management culture in which attitudes, behaviours and activities together form an environment in which risk considerations are part of what we routinely do.

In the *Best Practice Review of the Office of the City Auditor (OCA)*<sup>1</sup> published in the spring of 2000, KPMG and Ernst & Young recommended implementation of a corporate initiative called Enterprise Risk Management. On August 29, 2000, City Council

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<sup>1</sup> At that time, the OCA was the Office of the Auditor General.

approved the following motion: “That the mission, role and responsibility of the Auditor be redefined as described in the ‘Best Practice Review’ ....” Since that approval, the OCA’s Annual Work Plan has included project time to facilitate research, model development and implementation of ERM in the City of Edmonton.

## 2. Background

On December 7, 2000 the Senior Management Team (SMT) agreed to an OCA proposal that ERM be undertaken as a joint initiative with involvement of both the OCA and the Administration. SMT then appointed a team consisting of representatives from each department and content specialists to develop the project scope and project charter. Prior to circulating the approved project charter to the Administration in March 2002 the ERM project was retitled *Corporate Business Risk Planning* or CBRP to more clearly link it with the Corporate Business Planning process.

SMT approved the risk management model on September 4, 2003, and directed that it be integrated with business planning and other corporate initiatives including activities of the Office of Infrastructure and Office of Emergency Preparedness.

On October 21, 2004 SMT received the results of the first year’s CBRP process as information and agreed to continue to support the process as the corporate model for managing business risk.

Throughout the remainder of this report the term ERM will be used to acknowledge the intent of the original project.

## 3. Objectives

The objectives of the ERM project were to:

- Develop a process that facilitates the identification, assessment, prioritization and reporting of risks across the corporation,
- Increase the awareness of ERM principles to enhance decision making and promote a proactive risk management culture, and
- Integrate risk management into existing processes such as Corporate and Department Business Plans, and the Office of the City Auditor’s Annual Work Plan.

## 4. Scope and Methodology

ERM applies to all departments and programs that are the responsibility of the City Manager or the City Auditor. It is not intended to replace existing risk management processes, but rather supplement and coordinate existing risk management activities. The following methodology was used to achieve our objectives:

- Researched leading practices recommended by professional organizations such as the Institute of Internal Auditors, and the Committee of Sponsoring Organizations of the Treadway Commission (COSO), as well as risk management frameworks and practices of other public organizations.
- Evaluated the City's risk management culture and promoted the application of ERM across the corporation.
- Led the development and implementation of the ERM process and toolsets for identifying, assessing and prioritizing all types of risks (e.g., strategic, operational, program) faced by the City.
- Facilitated the development of risk assessment criteria to evaluate identified risks.
- Educated/coached department representatives on the use of the ERM toolset and coached managers on the application of ERM.
- Facilitated risk identification and assessment sessions within organizational units on a request basis.
- Facilitated prioritization of risks, identified by departments, from a corporate perspective and development of recommended actions.
- Met with representatives of business planning and other major corporate processes containing a risk assessment component and assisted in determining the best method to coordinate activities.
- Reviewed OCA planning guidelines and aligned risk assessment processes with the ERM and the CBRP toolsets.

## 5. Summary of Results

### **ERM Process**

The City of Edmonton is one of the first municipalities to develop a detailed ERM process for a multi-service organization. Single-service industries such as financial institutions and the oil industry were among the leaders in implementing an ERM process. Their processes and toolsets were assessed but could not be applied in a municipal setting without significant modification. As a result the City needed to define a process and create toolsets specific for our needs. The City of Edmonton Enterprise Risk Management Model (Attachment 1) includes leading edge practices for ERM in a municipal setting in North America. This model depicts risk management as a cyclical rather than linear process with risks to be reassessed on a periodic basis in order to confirm their status relative to current business objectives.

The most challenging aspect of ERM in the City is comparing and prioritizing risks for different types of services (transit security, parkland maintenance, etc.) in a manner that allows direct comparison. Measurable criteria were developed to quantify the impact each risk had on the business area identifying the risk, the City as a whole and on its citizens. Predefined levels for magnitude (e.g., removal of service citywide), duration

(e.g., long-term disruption) and likelihood (e.g., small likelihood/1-15% probability) of impact were used to assess selected criteria. The following table sets out the criteria.

<b>Business Area Criteria</b>	<b>Corporate Criteria</b>	<b>Citizen Criteria</b>
<ul style="list-style-type: none"> <li>• Service delivery</li> <li>• Employee safety</li> <li>• Infrastructure capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Environment</li> <li>• Economy</li> <li>• Legislated/legal requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Citizen feedback</li> <li>• Media attention</li> <li>• Public safety</li> </ul>

Most risks identified in the first year of roll-out were operational in nature. Based on our review of documented risks and through discussions with management on risks in general, it appears that known risks are being managed reasonably well. Risks that are strategic in nature or that might arise out of a future event were not identified by the Administration in the first year. The risk management project team identified the need for a forum and process to more effectively identify strategic or corporate risk exposures.

The results of the first year’s efforts for the ERM project have been assessed by the project team and other stakeholders, concerns and suggestions for improvement have been documented, and the ERM model and toolset are being updated to address the comments. The updated tools will enhance the City’s ERM program and risk management abilities.

**Risk Management Culture**

To obtain the maximum benefit from the ERM process, the City needs to embrace the ERM principles as part of its risk management culture.

Prior to development of the ERM process for the City, an organization readiness assessment was completed to determine the state of the City’s risk management processes and culture. This assessment showed that the Corporation had limited risk management infrastructure in place and practices were inconsistent or ad-hoc. In this kind of culture, operational risks are managed vertically and on an individual basis, some formally and some informally. However, risk is managed differently within and between departments, potentially resulting in missed opportunities to reduce costs or optimize risk.

A number of activities were undertaken to promote a culture that would enhance the City’s ERM capabilities. These included:

1. Involving departmental representatives in the development of the ERM process and the ERM toolset.
2. Meeting with department management teams to increase the awareness of ERM and the value of formalized risk management processes.

3. Providing training to departmental representatives on the application of the ERM model and toolset.
4. Developing ERM presentation materials to assist departmental representatives in the facilitation of risk exercises within their respective departments.
5. Meeting with Branch management teams to discuss ERM and address concerns that existed.
6. Providing a forum for departmental representatives to discuss the status of risk processes in their departments and with each other.

In the spring 2005, the OCA facilitated another organization readiness assessment to determine how much impact the actions of the previous eighteen months had on the Corporation. The result showed a slight improvement in the risk management infrastructure with practices being more consistent; however, most areas are still managing risks in isolation of each other.

In order to maximize the benefits from the ERM program, senior management will need to continue to deliver a strong and consistent message on the value of ERM and also display their support for a risk management culture making risk considerations a part of normal daily operations.

### **Process Integration**

During the development of the ERM model and toolset the project team recognized that a number of other major processes (Attachment 2) had risk assessment processes in place. These included Emergency Preparedness, Infrastructure Management and Environmental Management. In addition, at the same time the ERM process was being developed, the City hired a consultant to develop a "Value Management" toolset to evaluate proposed business applications of information technology projects. Meetings were held with representatives of these processes to share information in order to minimize duplication, align and standardize processes where practical, and increase awareness of the different processes and purposes.

One of the main goals for the project team was to incorporate risk planning into the Business Planning Process. A number of meetings were held to determine how best to achieve this. Options were identified; however, ERM results were not consistently incorporated into the Business Plans.

Following the initial rollout of ERM in 2003, the Corporation expanded the Value Management process to include Service Issue Evaluation of budget packages. One of the elements of the Service Issue Evaluation is the assessment of risk. This process was coordinated with the Business Planning Process but not fully with the ERM process. Its introduction has created uncertainty among some managers and added to the ambiguity created by the increasing number of risk management processes that are encompassed by ERM. As a result, the current challenge is to maintain momentum on improving the overall City risk management processes and risk culture. In addition,

discussions among ERM team members indicate that it is not clear how risk management should be fully integrated into the business planning process.

With the development of more risk assessment tools and some lack of clarity on their use, there would be value in reviewing the number of project teams, consolidating efforts and documenting the relationships among the various processes, including guidance on when to use each tool set. Additionally, a process to consolidate risk information from the various processes will need to be developed to achieve the full benefits of ERM.

The OCA has reviewed its work planning and risk management practices and is incorporating the applicable elements of the ERM processes and tools into its assessment of projects for both short and long term audit work planning as well as risk assessments undertaken while conducting audit projects.

## 6. Conclusions and Recommendation

In order to maintain our independence and objectivity on risk related matters, the responsibility for leading further implementation of ERM needs to be assumed by Management. The following table sets out key roles for Internal Audit and Management with regard to ERM:<sup>2</sup>

<b>Internal Audit Role (governance oversight)</b>	<b>Joint Role with Limited Audit Involvement</b>	<b>Management Role</b>
<ul style="list-style-type: none"> <li>• Review management of key risks</li> <li>• Evaluate risk management processes</li> <li>• Provide assurance on risk management processes</li> </ul>	<ul style="list-style-type: none"> <li>• Championing establishment of ERM</li> <li>• Facilitating identification and evaluation of risks</li> <li>• Developing and maintaining the ERM framework</li> <li>• Coordinating ERM activities</li> </ul>	<ul style="list-style-type: none"> <li>• Accountable for risk management</li> <li>• Setting the risk appetite</li> <li>• Ensure effective application of risk management processes</li> <li>• Making decisions on and implementing risk response</li> </ul>

The OCA will present the enhanced ERM model and toolset to the risk management project team to facilitate the transfer of responsibility of ERM to the City Manager. This model and toolset along with other risk management processes being used by Management provides a solid foundation that will enhance the City’s ability to implement ERM. Management will need to evaluate all existing risk management processes and toolsets, define relationships among the processes and toolsets and clearly identify the appropriate use of each process and toolset. These actions will enhance the City’s risk management abilities including identification of strategic and corporate risks. However,

<sup>2</sup> Key roles taken from the article “Role Play” in the April 2005 issue of the Internal Auditor magazine

having clearly defined risk management processes only provides the mechanism to enhance the City’s management of risk. Based on the OCA’s review of leading practice and discussions with organizations that have implemented ERM, the success of the ERM program will depend on strong, consistent and visible support from all members of SMT.

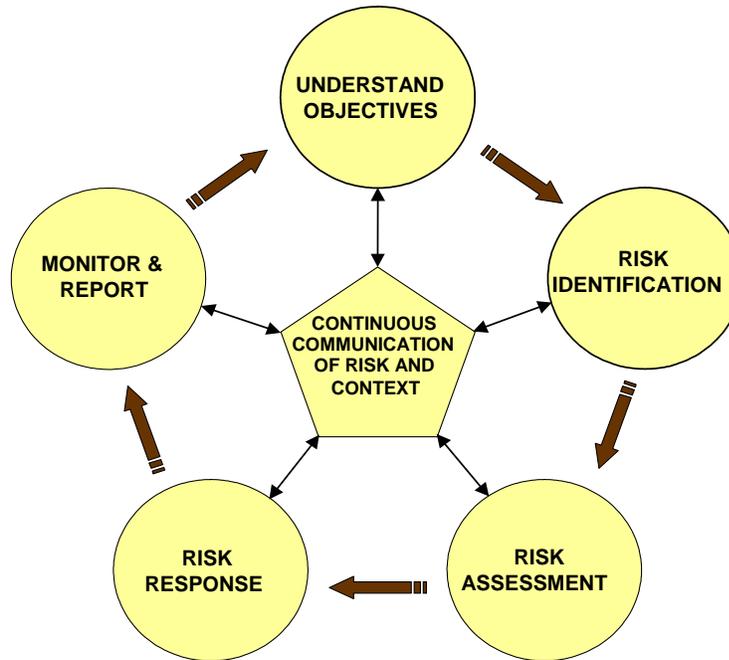
<b>Recommendation</b>	<b>Management Response and Action Plan</b>
<p>The OCA recommends that SMT accept responsibility for management of the City’s overall Enterprise Risk Management program and provide guidance for selection and use of risk management toolsets to Management.</p>	<p><b>Accepted</b>  Comments:  The application of ERM and guidance on the use of the risk management toolsets will be incorporated into the corporate business planning process.  Planned Implementation: December 2006  Responsible Party: Strategic Services Branch Manager, Corporate Services Department</p>

Further OCA involvement in the ERM program will be assessed and prioritized in development of the OCA’s Annual Work Plans. In addition, the OCA will schedule a follow-up review within the next two years to evaluate the Administration’s progress in implementing enterprise risk planning.

The OCA thanks all City staff who participated in this project for their support, cooperation and feedback.

## Risk Management Model

The following diagram depicts the phases in the City's risk management model.



The first phase of the risk management model is to understand the organization's objectives, strategic direction, stakeholders, and structure. The second phase of the model is to document the consequence or impact a risk event will have on the business objectives. The third phase is to assess the impacts identified in phase 2 using predefined criteria. Once the impacts of the risks have been assessed a decision has to be made on how to treat or respond to the risk taking into account the availability of resources. Monitoring and reporting mechanisms for risk management activities provide feedback to management and other interested parties (e.g., audit committees, governing bodies, etc).

Continuous communication of the results of all phases and activities ensures that enterprise risk management is effective in the long term.

## Major Processes with Risk Assessment Components

The following chart identifies major processes or functions that contain a risk assessment component. This chart is not exhaustive but identifies those activities that were considered during the development of the ERM Multi-Service Model.

