

**Subject: Enterprise Risk Management Program-Approval of Audit
Recommended Actions**

File Number: ACS2023-FCS-BSS-0001

**Report to Finance and Corporate Services Committee on 6 June 2023
and Council 14 June 2023**

**Submitted on May 26, 2023 by Cyril Rogers, General Manager and Chief Financial
Officer (A), Finance and Corporate Services Department**

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Ward: Citywide

**Objet : Gestion des risques d'entreprise – Approbation des actions
recommandées à la suite de la vérification**

Dossier : ACS2023-FCS-BSS-0001

**Rapport au Comité des finances et des services organisationnel
le 6 juin 2023**

et au Conseil le 14 juin 2023

**Soumis le 25 mai 2023 par Cyril Rogers, Directeur général et chef des finances
par intérim, Direction générale des finances et des services organisationnels**

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Quartier : À l'échelle de la ville

REPORT RECOMMENDATION(S)

That the Finance and Corporate Services Committee:

- 1. Receive this report.**

- 2. Recommend Council approve the City's Risk Appetite and Tolerance Statements as outlined in this report.**
- 3. Recommend Council approve the approach for reporting of Corporate Risks to Council as outlined in this report.**

RECOMMANDATION(S) DU RAPPORT

Que le Comité des finances et des services organisationnels :

- 1. prenne connaissance de ce rapport; et**
- 2. recommande au Conseil d'approuver les énoncés d'acceptation du risque et de tolérance au risque de la Ville, tels qu'ils sont présentés dans ce rapport; et**
- 3. recommande au Conseil d'approuver l'approche employée pour signaler au Conseil les risques pour la Ville, telle qu'elle est présentée dans ce rapport.**

BACKGROUND

In 2010, in response to a recommendation by the Auditor General, the City created a new Enterprise Risk Management (ERM) Policy and Framework, a series of tools and a training course, as well as a risk management committee to monitor risk activities at the department level. Upon approval by Council, responsibility for the management of the activities under the risk policy and framework was delegated to staff. In 2013, following an update to the ERM policy, future updates to the policy were also delegated to staff, with reporting of risks and risk activities rising to the City Manager and Senior Leadership Team.

Since then, these activities have evolved into robust risk management practices, underpinned by an ERM program. Risk management is a day-to-day operational reality at the City with many employees having risk management responsibilities embedded in their work.

Beyond the operational management of risk, the City's ERM program supports the departmental and corporate rollup of risks, ensures the City's risk management training is up-to-date, and facilitates escalation of corporate risks and collaboration on risk mitigation strategies.

Coordination of the ERM program is performed by the Business Support Services or Business and Technical Support Services (BTSS) groups in each department.

Annually, a risk register is created and updated by each department, including a list of current risks, the likelihood and impact of that risk occurring, mitigation actions and a progress report. These registers are reviewed by each General Manager and departmental leadership team (DLT). BTSS staff review the registers for common risk trends and look for opportunities for cross-departmental mitigation actions where possible. Any risks that require escalation to Senior Leadership are also reviewed bi-annually as part of this work. The BTSS groups also ensure staff have access to risk management training and provide risk management tools and support to their departments as required.

In 2021, the Office of the Auditor General (OAG) began an audit of the City's ERM program ([Report ACS2022-OAG-BVG-0007](#)), wherein the Auditor stated:

“We found that the City has an ERM program in place supported by an ERM Policy and Framework. There are sound and robust processes in place and functioning which support the identification and management of the most significant risks to the organization. Notwithstanding, the audit noted a number of opportunities to improve and strengthen current risk management practices across the City to mature the overall program.”

The audit outlined seven key recommendations to strengthen the City's ERM practices. Five of the recommendations are either in progress by staff or are planned for the near future. The two recommendations related to this report are as follows:

1. Establish Risk Tolerance Levels

The City Manager, supported by the GM, ICSD [now General Manager of the Finance and Corporate Services Department (GM FCSD)] should initiate an exercise to develop risk appetite statements and risk tolerance levels for the City and provide them to Council for approval to ensure appropriate resources are being allocated to mitigate risk where required and beneficial. Departments should utilize the established risk tolerance and appetite levels to determine where best to allocate their resources towards mitigation strategies.

2. Informing Council of Corporate Risks

The GM, ICSD [now GM, FCSD], in conjunction with the City Manager and City Clerk, should determine what level of corporate risk information is recommended to provide to the next Council, including appropriate format,

approach and frequency to enable Council members to consider such corporate risks as they are making strategic decisions.

DISCUSSION

RISK APPETITE AND TOLERANCE

The use of risk appetite and tolerance is a well-established risk management practice. It is used by many private and public sector organizations around the world as an integral part of corporate governance, strategic planning and decision-making. In keeping with the recommendation from the OAG and leading risk practices, Council is being asked to approve the statements, contained in Document 1-City of Ottawa Risk Appetite and Tolerance Statements.

In Q3 and Q4 of 2022, the City's Senior Leadership Team (SLT) participated in a series of interviews and working sessions facilitated by staff and risk management consultants from BDO. In creating the risk appetite and tolerance statements, the following key considerations were noted:

- the City, like most public sector organizations, is traditionally risk adverse, however; there are instances where the City is willing to take on more risk to support service delivery and to meet Council's public policy objectives.
- Deviation from the City's risk appetite and tolerance should be infrequent, and only when necessary to meet a strategic objective or to safeguard the health and safety of the public.
- Risk appetite and tolerance statements do not exist in isolation; some risks will be affected by different levels of tolerance. When making decisions it's important to consider the entirety of the City's appetite and tolerance and how the decision may be affected.
- Understanding the City's risk appetite and tolerance can help decision-makers properly allocate resources.

Risk appetite refers to the type and amount of risk, at a broad level, that an organization is willing to assume in the pursuit of value. Having a risk appetite statement is an important part of an organization's strategic vision, communicating the risk "culture" of the organization to both internal and external stakeholders. The proposed risk appetite statement outlines instances where the City will accept some risk, while contrasting instances where the City has a low appetite for risk.

In general, a risk appetite statement is most useful when setting a strategic direction for

an organization. With a new term of Council underway, this is an optimal time to adopt a risk appetite statement. Council is advised that a mid and end of term review of risk appetite would be appropriate, however the overall risk appetite of the organization is not expected to change significantly.

The proposed appetite statement will communicate to the public that the City will prudently accept risk when looking to improve the effectiveness of the organization, City services and the overall livability of the City. At the same time, the statement will communicate that City is risk-adverse when it pertains to the health and safety of the public, City staff and visitors, impacts to the environment, and any actions that would negatively impact City services to the public. As Council determines the priorities for this term, the risk appetite statement can serve as a guidepost for strategic decisions.

Risk tolerance, while related to appetite, is somewhat more complex, and is more appropriately used as a regular decision-making tool. If risk appetite is the organization's "speed limit", risk tolerance is how far above and how far below the speed limit the organization is willing to go in the pursuit of value.

The proposed tolerance statements are categorized by "risk area" and align with the way that risks are categorized within the City's ERM program. The intention is for decision-makers to be equipped with the tolerance statements as a holistic decision-tree for considering risk implications of a decision. Each tolerance statement indicates whether the City has a low, medium or high risk tolerance in that particular risk category. Low tolerance indicates that the City is generally not willing to assume a particular risk, whereas high tolerance indicates that the City will consider taking on additional risk in the pursuit of value or a particular outcome. A medium tolerance indicates that a decision to pursue risk is highly contextual, and that there is neither an implicit low nor high tolerance in this case.

While each category may not apply for each decision, it is important to remember that the risk tolerance statements should be considered together, and never in isolation. This is a tool that can be used by operational managers, project managers, senior leaders as well as members of Council to check decisions against the City's tolerance for risk.

As an example, imagine a City project manager tasked with developing a business case for a new program. Key considerations in determining the viability of a business case are the risks of proceeding (or not proceeding) with the decision. Using the City's risk tolerance as a guide, this project manager could review the costs and benefits of the

program in the context of risk. By reading through the tolerance statements and deciding if it matches the stated level of risk tolerance, the project manager can check the alignment of the proposed course of action. If it is generally in line with the City's risk tolerance, then the business case can be pursued. If it is generally outside of the City's risk tolerance, the question should be asked, is this an appropriate course of action? The project manager may not proceed with the business case or may at least review the factors that result in it being outside of the City's accepted level of risk tolerance.

The statements for approval are contained in Document 1-City of Ottawa Risk Appetite and Tolerance Statements. Upon approval, the risk appetite and tolerance statements will be embedded in the City's ERM framework and included in future cohorts of the City's ERM training course and related materials.

INFORMING COUNCIL OF CORPORATE RISKS

Within the framework of Enterprise Risk Management, the City considers several levels of risk, including project risk, operational risk, departmental risk, horizontal (cross-departmental risk), and corporate risk. **Corporate risks** are risks which are associated with strategic goals of the City and can often be tied directly to the strategic objectives of City Council. Corporate risks are regularly reviewed by senior leadership to understand and mitigate risks before issues occur.

Currently, Council is made aware of risks through information presented in reports to Committee and Council (focused on specific projects, programs, issues or topics) and in some instances through initiative-specific reporting. The OAG has recommended that staff inform Council of these strategic, "big picture" risks in a more consolidated and consistent manner. Previous to this recommendation, staff complied with the direction of Council respecting the ERM framework, as outlined in the City Manager's Report ACS2010-COS-ODP-0004 approved by Council on 6 April 2010.

The intention of this new reporting approach is to assist Council in making informed, transparent and objective risk-based decisions, and to ensure that the level of information provided publicly will be balanced with protecting the City's vulnerabilities and confidentiality requirements.

The City considers corporate risks in two broad categories: Corporate Strategic Risks, and Corporate Administrative Risks. Corporate Strategic risks are those that fall within a specific program, project or grouping of City services that can impact residents and are often related directly to Council priorities. Corporate Administrative risks are generally significant corporate service risks that may affect service delivery within the organization

and tend to cut across the strategic risks. An example of an administrative risk would be a human resources risk, or one related to the City's IT infrastructure.

The corporate risk reporting approach to Council will focus on the corporate strategic risks, which are the most relevant to the decision-making of Council for achieving the strategic objectives for the Term of Council. Any reporting of administrative risks will continue to occur as part of Committee and Council reports as well as briefings to members of Council as required to inform decision-making.

Corporate Risk Reporting Approach

Beginning with the Term of Council Priorities report in 2023, Council will be made aware of the current corporate strategic risks that are being tracked as they are aligned to and being addressed through the Term of Council Priorities. Going forward, updates on the progress of the 2023-2026 Term of Council Priorities and City Strategic Plan will be accompanied by a refresh of the corporate strategic risks, including any new risks to achieving the strategic objectives within the 2023-2026 City Strategic Plan. This report on corporate strategic risks will provide Council with an understanding of current risks, new risks and what mitigation actions are in place to address the risks.

The risk information provided to Council going forward will include the following:

- A list of corporate strategic risks;
- The name and description of the risk;
- The risk score, which is comprised of the likelihood of the risk occurring and the impact of the risk if it does occur, on a five (5) x five (5) scale (the highest score being 25);
- Any movement in the risk score since the last update;
- A summary of the mitigation actions proposed or in progress for the risk. Note that due to security and confidentiality requirements, details of certain mitigation actions may not be provided publicly;
- The name/title of the risk owner.

During the presentation of this update, risk owners will be available to answer questions from members of Council, and any new proposed risks or changes to risks being reported will be brought back by staff for review and consideration.

Upon approval, reporting on corporate risk updates will be aligned with reporting on the Term of Council Priorities updates.

FINANCIAL IMPLICATIONS

There are no financial implications to the approval of this report.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a City-Wide Item.

RISK MANAGEMENT IMPLICATIONS

There are risk management implications. This report recommends two action items related to the City's Enterprise Risk Management program. Implications of these actions are discussed within the report.

TERM OF COUNCIL PRIORITIES

The 2023-2026 City Strategic Plan is currently in development, however, this report impacts all the key priorities in the 2019-2022 City Strategic Plan.

SUPPORTING DOCUMENTATION

Document 1: City of Ottawa Risk Appetite and Tolerance Statements

DISPOSITION

Once approved, staff will implement the recommendations as detailed in this report.