Proposed Risk Based Management Program
Internal Audit Services – Request for Proposals

Recommendations

1) That the Finance Committee recommend to City Council that:

   (a) the proposed enhanced Enterprise Risk Management program to be called Risk Based Management as described in this report be approved;

   (b) the attached proposed Council policy for a Risk Based Management system be adopted as a component of corporate governance for the City; and

2) That the request for proposals for internal audit services include language to ensure that any proponent is aware that it will be required to audit risk management programs and practices, may be called on to assist with the modification and improvement of such programs, and that the proponent will be required to audit the risk management practice and performance of all departments.

Topic and Purpose
This report proposes a program to manage risk and uncertainty arising from enterprise level activities for the City.

Report Highlights
This report outlines the role of internal audit in Enterprise Risk Management programs, the state of our current program and proposes an update to our current program. This report also provides further background regarding aligning the City's internal audit and Enterprise Risk Management functions to ensure maximum value for the City.

Strategic Goal
This proposed program supports the Strategic Goal of Continuous Improvement.

Background
Our current internal audit contract is set to expire. Risk management of enterprise level risks is becoming an increasing concern for Administration and internal audit programs.

This report examines further information on internal audit models, examples of best practices in Enterprise Risk Management, and the relationship between the programs.

Report

Saskatoon's current program utilises the risk management process common to many Enterprise Risk Management ("ERM") programs, including ongoing review and monitoring, and was designed to apply to all types and levels of risk at the City. The program began with a review of current mitigation of the negative impacts of operational risk, with review of strategic or "enterprise-wide" risk deferred until later. The program is designed to:

- develop and heighten awareness of the internal and external context in which planning and operations are carried out, and what uncertainties those operations entail;
- identify risks that arise, and measure the likelihood and impact of risk events;
- identify and evaluate current and proposed mitigation measures;
- gather and communicate risk information to management to direct mitigation efforts; and
- ensure ongoing review of programs and practices to support continuous improvement.

The program thus seeks to improve the management of uncertainty, and to ensure that management has the information needed to effectively mitigate risk in a timely way. Please see Attachment 3 for a detailed description of the current program.

Administration has identified a need to update and fully implement the program formally to address strategic or enterprise level risk. The steps necessary to implement the full program are:

- set parameters for the program and establish a Council policy for enterprise level risk management;
- establish a Leadership Team Risk Committee and set responsibilities for the program;
- identify, assess and mitigate/exploit strategic and enterprise level risks at the upper management and City Council levels;
- develop risk communication and education programming and materials;
- ongoing annual review;
- ongoing review, including audits, and modification of the ERM program, to ensure that the program is achieving objectives, adopting best practices, and contributing to the continuous improvement of management at the City.

Please see Attachments 1 and 2 for a detailed description of the proposed program.

The role of internal audit in ERM programs is to review departmental and corporate risk management programs and practices and suggest improvements, and to review the risk

management program itself. The Institute of Internal Auditors recommends against the ongoing management of risk by internal audit in order to avoid a conflict with audit's role to review and suggest improvements. City of Saskatoon Council Policy No. C02-032 indicates that risk management is a key management role, and that the auditor will "assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems". Thus, any firm awarded the contract for the City's internal audit function must bring sophisticated risk-based audit skills and resources to the program.

Public Notice
Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments
1.   Proposed Council Policy – "Corporate Governance – Risk Based Management Policy".
2.   Detailed Description of Proposed Risk Based Management Program.
3.   Detailed Background of Current Program.

Report Approval
Written by: Wayne Bischoff, Solicitor
Approved by: Patricia Warwick, City Solicitor
Approved by: Murray Totland, City Manager

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Corporate Governance - Risk Based Management Policy

Purpose

1.   To ensure that the City:

      (a)   is protected from the negative effects of risk to the fullest extent possible; and

      (b)   realises maximum positive results from its activities and efforts.

Definitions

2.   (a)   "**risk**" means uncertainty about whether a risk event that has the potential to significantly affect the goals and objectives of the City will result in a gain or loss in the achievement of the corporate goal or objective;

      (b)   "**Risk Based Management**" (RBM) means a systematic, proactive and ongoing process to understand and manage risk, and to communicate risk information throughout the City, which contributes positively to the achievement of corporate objectives, and as further described in Appendix A hereto;

      (c)   "**risk event**" means an event arising out of the activities or operations of the City that gives rise to uncertainty about whether the goal or objective will be achieved;

      (d)   "**risk management**" means avoiding, accepting, transferring or treating the uncertainty arising from a risk event to minimise the negative impact of the risk event and increase the likelihood of achieving the goal or objective, by reducing the negative outcomes of risk events and enhancing the positive outcomes of intelligent risk taking;

      (e)   "**risk tolerance level**" means a level of negative risk event outcome that is acceptable in the particular operations of the City.

Implementation of the Policy

3.   Policy Statement

The City shall adopt a process to manage the City's enterprise level risk, entitled RBM, based on the ISO 31000 Risk Management Standard, as described herein and the Schedules attached hereto. Administration shall embed into corporate operations and reporting a systematic, proactive and ongoing process to

understand and manage risk and uncertainty, and to communicate risk information throughout the City, which will contribute positively to the achievement of corporate objectives.

4. <u>Policy Principles</u>

The RBM process shall:

    (a)   create value for the City;
    (b)   be an integral part of organizational processes;
    (c)   be an integral part of decision making;
    (d)   explicitly address uncertainty;
    (e)   be systematic, supported and timely;
    (f)   be based on the best available information;
    (g)   be tailored to the City's specific needs;
    (h)   take human and cultural factors into consideration;
    (i)   be transparent and inclusive;
    (j)   be dynamic, iterative and responsive to change;
    (k)   facilitate continuous improvement of management practices; and
    (l)   enhance achievement of the goals of the organization.

5. <u>The City of Saskatoon RBM Process Outcomes</u>

(1) Management decisions shall be taken with the support of systematically obtained and organised risk and uncertainty information to ensure effective and efficient use of City resources.

(2) All risks that have the potential to significantly impede the achievement of corporate goals and objectives shall be identified, analysed, treated, and disclosed when reporting to Administration, Council or Committees.

(3) The integration of RBM into all operations of the City will be supported by a corporate philosophy and culture that actively supports and encourages all employees to systematically and proactively manage risk using the RBM system, and to take a "risk smart" approach to managing all risk inherent in City activities.

(4) RBM will be integrated into short, medium and long term strategic and business planning, including budget planning, and ongoing operations of the City, and will be consistently applied to the development and implementation of policy, programs, plans and future directions for the City.

(5) The RBM process shall be reviewed and benchmarked against risk management best practices, and this policy shall be reviewed and updated by Council at appropriate intervals.

6. Reporting

(1) All reports and presentations to Council or Committees made by Administration shall consider and disclose all significant risks arising from activities or recommendations contained in the report. **It is not acceptable to protect Council from bad news by concealing risks.**

(2) Use of common language and terms outlined in the RBM documents shall be used when disclosing risk and uncertainty to Administration, Council or Committees.
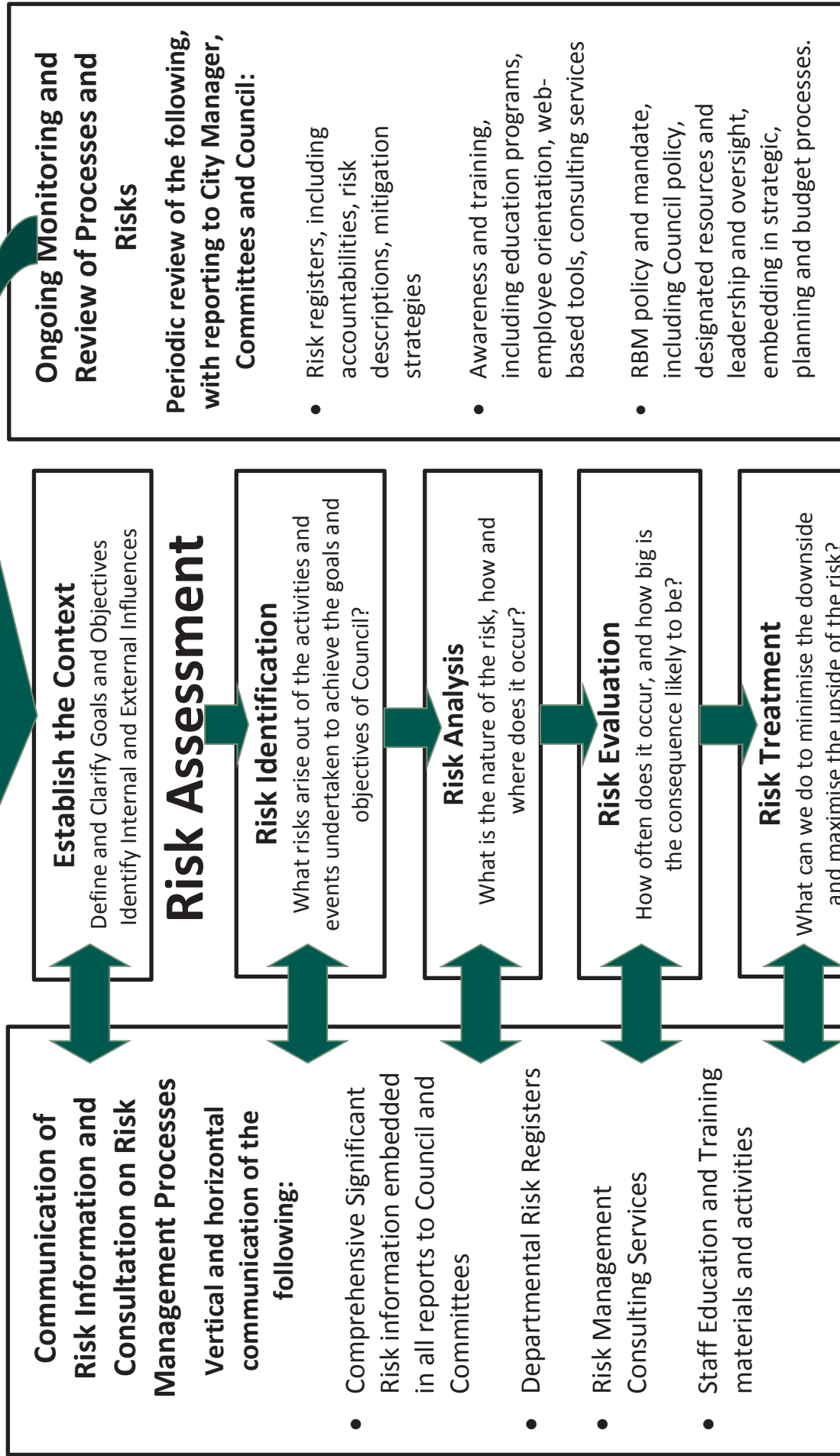
7. Risk Tolerance

(1) Council, in consultation with the City Manager, shall set risk tolerance levels for the corporation. Risk tolerance levels will be set in consideration of relevant legislated requirements, corporate goals and objectives, and the principles and processes outlined in this policy.

(2) All City employees shall carry out their obligations within approved risk tolerance levels.

8. Responsibility

(1) Council shall be responsible to set and review risk management policy.

(2) The City Manager shall be responsible for risk management throughout the corporation of the City.

(3) The City Manager may further delegate particular risk management duties as defined in the RBM procedures attached hereto.

(4) All City employees shall be responsible for management of risk and uncertainty within the scope of their duties, and shall comply with requirements of the RBM system. Management of particular risks shall be assigned to the person most aware of, and best able to manage, the particular risk.

Risk Based Management Model

Ongoing Monitoring and Review of Processes and Risks

Periodic review of the following, with reporting to City Manager, Committees and Council:

- Risk registers, including accountabilities, risk descriptions, mitigation strategies

- Awareness and training, including education programs, employee orientation, web-based tools, consulting services

- RBM policy and mandate, including Council policy, designated resources and leadership and oversight, embedding in strategic, planning and budget processes.

Establish the Context
Define and Clarify Goals and Objectives
Identify Internal and External Influences

Risk Assessment

Risk Identification
What risks arise out of the activities and events undertaken to achieve the goals and objectives of Council?

Risk Analysis
What is the nature of the risk, how and where does it occur?

Risk Evaluation
How often does it occur, and how big is the consequence likely to be?

Risk Treatment
What can we do to minimise the downside and maximise the upside of the risk?

Communication of Risk Information and Consultation on Risk Management Processes

Vertical and horizontal communication of the following:

- Comprehensive Significant Risk information embedded in all reports to Council and Committees

- Departmental Risk Registers

- Risk Management Consulting Services

- Staff Education and Training materials and activities

Detailed Description of Proposed Program

Risk Based Management Proposal

Risk based management (RBM) is a process intended to ensure that significant risks facing the City are addressed in a positive, systematic and productive way. The process is modelled on the International Standards Organization 31000 Standard for Risk Management, and is similar to Calgary's Integrated Risk Management program. The program is intended to encourage and develop new attitudes and practices in the management of risk at the City. Accordingly, success of the program requires a strong commitment from Council and Administration, and requires significant support and encouragement to ensure success in achieving an enhanced culture of risk management at the City.

Currently the City is addressing risk in an ad hoc way, where each department deals with risks inherent in its own operations in its own way. However, Administration has identified a need for a systematic approach to managing risk in a strategic or corporate wide way. Embedding a rigorous system to examine the impact of risks on a corporate wide basis will give management helpful tools and information upon which to base better risk management decisions. Most large corporations, both public and private, have similar programs intended to gather, analyse and communicate this type of risk information, to assist administration to make the best decisions possible.

The program, as described in the attachments, is intended to ensure that Administration, after carefully considering the goals and ambitions set by Council and Administration, identifies and analyses the significant risks and uncertainties that may impede the achievement of those goals and ambitions. Administration, once it has identified the risks that arise out of the activities undertaken to achieve the goals, then puts measures in place designed to raise the likelihood of success in the achievement of the goals and objectives, and to lower the likelihood of negative outcomes from those activities. It is structured around a Leadership Team Risk Committee, reporting to the City Manager, who then reports to Committee and Council.

Since the RBM system is based on risk information, it is important to have the best information possible on which to base management decisions. Timely and accurate information about:

- the City's strategic plans, goals and ambitions;
- the activities necessary to achieve those goals;
- the risks and uncertainties that may impact the achievement of these strategies, goals and ambitions; and,
- the most effective way to mitigate the risks and ensure achievement of goal is critical to the success of the program.
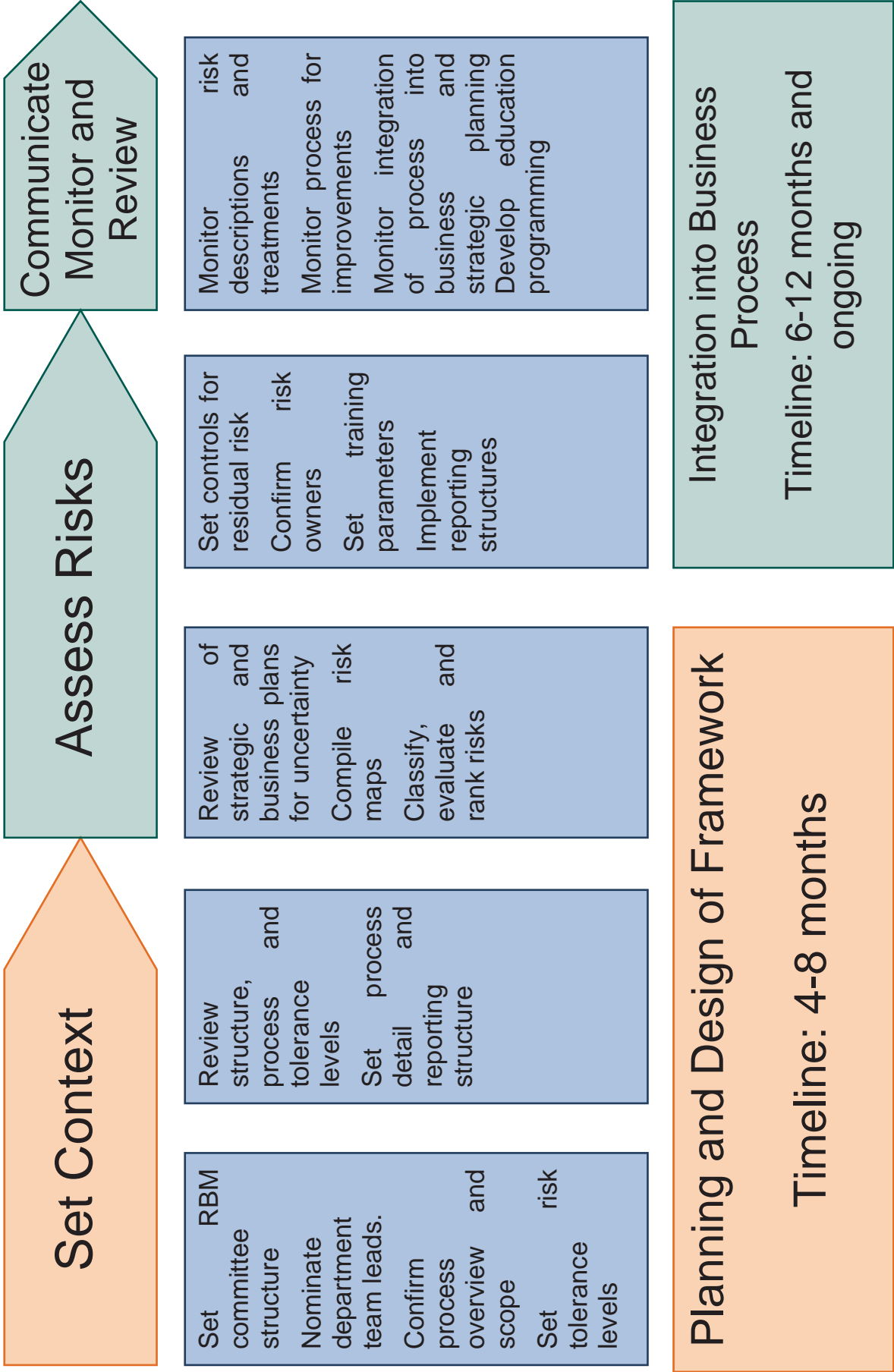
Accordingly, we have developed a proposed policy for consideration. It is also necessary to ensure that the best risk information possible is produced and collected from within the corporation and from external sources, and so risk management education of managers and employees is vitally important. It is also important to have effective and efficient communication mechanisms in place that will ensure that any risk information that is gathered gets to those in the best position to make decisions about how any significant risk will be treated. Our RBM proposal includes both these important components.

City of Saskatoon Risk Based Management Program - Roles and Responsibilities

	RBM Policy Development	RBM Program Planning and Development	RBM Implementation and Operation	Monitor and Report	Review
City Council	Set corporate scope and objectives for RBM policy in support of corporate business plan and objectives	Review and approve corporate risk map, corporate risk priorities and allocation of resources	Approve corporate risk priorities and mitigation resource allocation Ongoing review of programs and activities for compliance with RBM program Review reporting for new programs and activities for appropriate risk identification, mitigation strategies and resource allocation	Annually review ongoing program and new projects, review risk identification and mitigation strategies and allocation of mitigation resource priorities	Review annual audits and departmental reviews to ensure ongoing compliance with policy, program and corporate goals and objectives Review RBM program to ensure compliance with best practices
City Manager	Chair RBM Committee, ensure compliance with policy, plan and develop recommendations to Committee and Council for City's RBM policy	Plan and develop recommendations to Council for RBM program and ensure coordination with corporate strategic and business plan objectives Set corporate structure of RBM program, corporate risk mitigation strategy priorities, resources priorities, corporate risk appetite in compliance with Council policies	Establish, maintain and support awareness and ongoing culture of risk management throughout all departments of corporation Implement and maintain management practices to ensure risk management is incorporated into all aspects of planning and operations at all levels of the corporation in accordance with Council policy Encourage excellence in risk management at all levels of the corporation, and ongoing awareness and improvement of risk management programs and practices in the City	Ensure ongoing compliance with Council, RBM policy and program within corporate administration Monitor effectiveness of internal and external RBM communication, promote ongoing communication of RBM program objectives and activities Reporting to Council	Coordinate with Finance Committee and Internal Auditor Review annual audits for compliance with policy and program Review of policy and program objectives for compliance with corporate objectives and industry best practices
RBM Committee **City Manager** **City Clerk** **City Solicitor** **General Managers** **Communications Officer** **Fire Chief**	Plan and develop recommendations to City Manager and Council on RBM policy, incorporating the following: • principles of effective risk management • corporate business plan and objectives • role and goals of policy in daily planning and operations, ensuring a high level of integration into all activities	Plan and develop recommendations to Council for RBM program design, incorporating principles of effective risk management, including: • corporate business plan and objectives • require departmental, division and section RBM coordinators and accountabilities • recommend corporate risk appetite • develop corporate risk map • prioritise risk consequences • prioritise mitigation strategies • determine employee education and training strategies and practices • establish and maintain appropriate risk communication strategies and channels	Review legal and regulatory requirements Determine and make recommendations on ranking of corporate risks Develop, support and maintain RBM communication channels internally and externally Allocate corporate risk resources Ensure adequate resources are allocated to education and training Support and maintain the role and goals of the program in daily planning and operations Encourage and demonstrate a commitment to excellence and ongoing improvement in the RBM program	Monitor RBM performance through ongoing assessment of selected parameters for departments against performance standards Ongoing monitoring and reassessment of corporate risk rankings and mitigation strategies Monitor appropriateness of allocation of corporate risk resources Promote ongoing monitoring and implementation of program improvements Reporting through City Manager to Council	Coordinate and conduct annual formal review and audits of departmental and corporate risk appetite, risk maps, mitigation strategies, and resource allocation Coordinate with Finance Committee and Internal Auditor Coordinate and supervise implementation of action plans/program modifications arising out of audits and reviews

	RBM Policy Development	RBM Program Planning and Development	RBM Implementation and Operation	Monitor and Report	Review
Risk Management Division	Advise City Manager and RBM Committee regarding RBM policy planning and development Assist with policy development Communicate and promote policy internally and externally	Advise City Manager and RBM Committee regarding RBM program planning and development Advise and update RBM Committee on long range plans and developments in enterprise risk management best practices Facilitate risk assessments and mapping with departmental, division and section leaders and teams Advise and assist with development of measurement standards and accountabilities	Establish and maintain documentation and materials and practices to describe and promote an effective and proactive RBM policy and program Provide advice, training and assistance on risk identification, assessment, analysis and mitigation strategies to all levels of management and operations Ensure adequate and appropriate insurance is obtained and maintained where required for risk mitigation Identify the need for, coordinate and facilitate loss prevention programs for new and existing programs	Monitor and report to RBM Committee regarding issues arising out of loss prevention, claims and insurance Monitor and report on emerging issues in RBM practices Monitor and report on opportunities for improvement of program Reporting to the City Manager	Assist committee with coordination of internal program reviews Cooperate with internal audits of program
Division Directors and Section Managers	Consult with RBM Committee members (General Managers) on design of RBM policy	Develop internal departmental risk maps Set internal department, division and section, risk accountabilities	Identify legal and regulatory requirements for operations and planning Promote RBM program and ensure integration into daily operations and planning Ensure ongoing risk identification and assessment in departmental operations and planning	Reporting to RBM Committee through General Manager regarding new risks, effectiveness of current mitigation strategies and suggested new mitigation strategies Ongoing monitoring of regulatory and legislative requirements that impact at department, division and section levels	Participate in and assist with coordination of annual departmental review of department/division/section risk map, mitigation strategies, resource allocation Cooperate with internal audits of program
Department, Division and Section Employees	Consult with division directors and section managers on design of RBM policy	Consult with division directors and section managers on design of RBM program	Ensure ongoing, daily, front-line risk identification, analysis and assessment in all operations and planning, and identify mitigation options	Reporting to division directors and sections managers as appropriate regarding new risks, effectiveness of current mitigation strategies and suggested new mitigation strategies	Participate in annual departmental review and audit of risk inventory
Internal Auditor and Finance Committee	Internal Auditor and the Finance Committee will have an ongoing role in both the development of the program and in long term program monitoring. They will be consulted during the planning and development of the program. The Internal Auditor and the Finance Committee will review the Risk Map and forward comments to Council. In addition, the Internal Auditor will audit the program to ensure the program itself is running properly, and report to Council through the Finance Committee.				

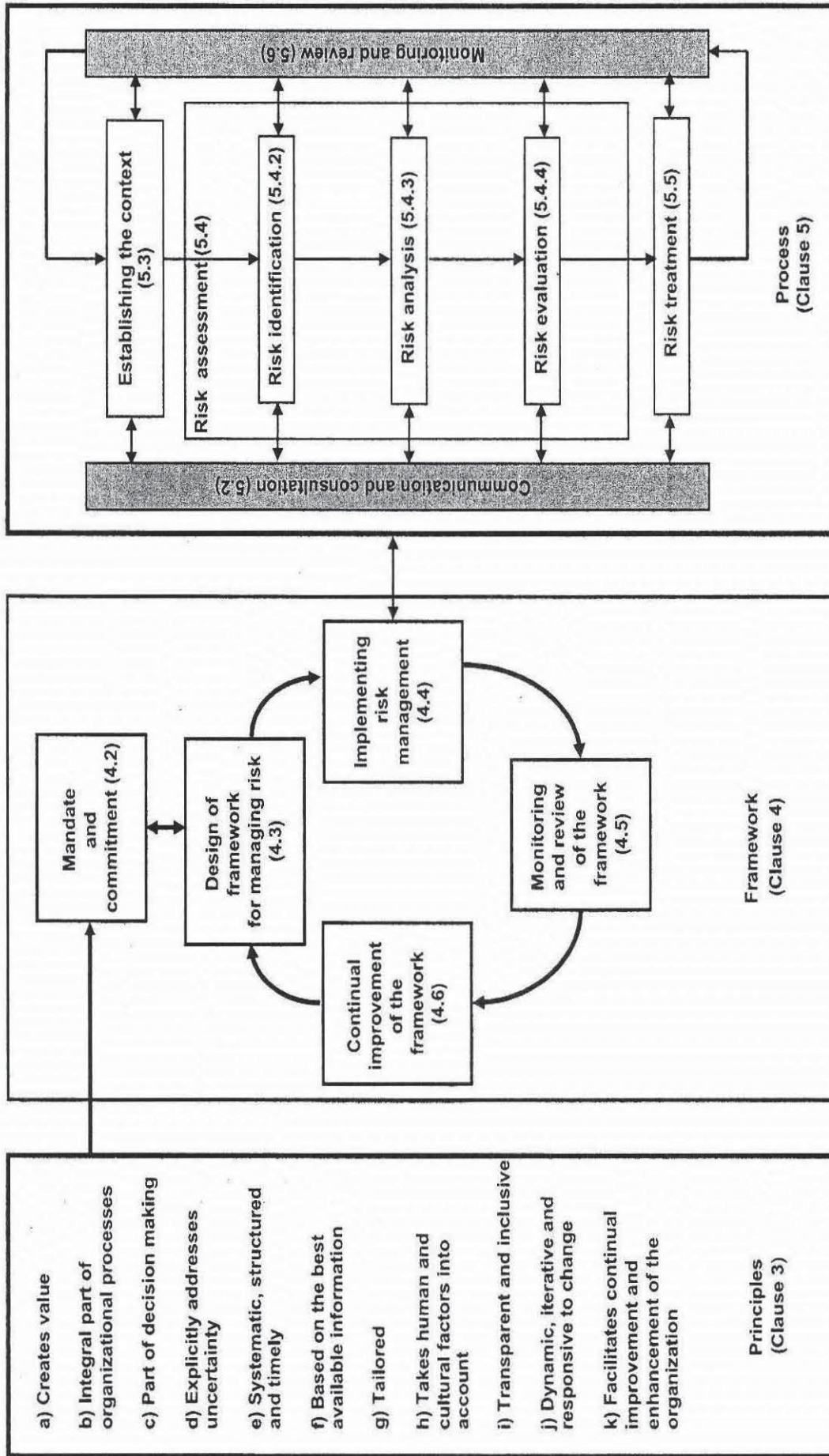# Risk Based Management Strategic and Business Planning Process

Set Context

- Set RBM committee structure
- Nominate department team leads.
- Confirm process overview and scope
- Set risk tolerance levels

- Review structure, process tolerance levels
- Set process detail and reporting structure

Assess Risks

- Review of strategic and business plans for uncertainty
- Compile risk maps
- Classify, evaluate and rank risks

- Set controls for residual risk
- Confirm risk owners
- Set training parameters
- Implement reporting structures

Communicate Monitor and Review

- Monitor risk descriptions and treatments
- Monitor process for improvements
- Monitor integration of process into business and strategic planning
- Develop education programming

Planning and Design of Framework

Timeline: 4-8 months

Integration into Business Process

Timeline: 6-12 months and ongoing

ISO 31000:2009(E)

Figure 1 — Relationships between the risk management principles, framework and process

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Detailed Background

Summary

Our operational Enterprise Risk Management (ERM) program has been in hiatus since completion of the initial phase of the operational risk mapping. Renewed interest in an ERM program has recently become apparent as a result of deliberations of the Leadership Team and the Administration's discussions with prospective candidates for the internal audit (IA) position. The IA candidates are interested in using risk based information to inform their audits for the City, and have inquired about the status of the City's ERM program, which could provide such information for the audit work. Risk Management Division made a comprehensive proposal for the ERM program in 2005, which included a system for the identification and analysis of all types of risk. The program was approved, and the initial pilot of the program was restricted to mapping operational risk, with the intention of conducting strategic or enterprise wide risk assessments later. With the renewed interest in ERM, Risk Management Division is seeking direction with respect to the future of the program, both in terms of an operational risk program, and a strategic and enterprise wide approach to risk. This report is intended to give background for that decision.

Background

Our current internal audit contract is set to expire. The Administration has reviewed other information on new directions in the audit profession, and had discussions regarding the evolving relationship between internal audit and ERM including ERM/audit best practices in Calgary, Alberta and London, Ontario. The Administration has gathered further information on internal audit models, examples of best practices in ERM, best practices for the relationship between the programs, and how the two programs could be best structured together to serve the City's needs, so that the Administration may make an informed decision on the proper form and content of the RFP for internal audit services. This report provides background for further discussion at the Finance Committee, with the goal that the City's internal audit and ERM functions are updated and aligned with current best practices to ensure maximum value for the City.

The City of Saskatoon ERM Program

Our current program, based on the New Zealand/ISO standard, was proposed in 2005. It utilises the standard 5 step risk management process common to ERM programs, with ongoing process review and monitoring and inter-departmental communication of consistently formatted risk information. The process was initially designed to apply to all types and levels of risk that the City may face, from front line operational risks to enterprise wide strategic and planning risks.

At that time, after consultation with senior management and Council, a decision was taken to start with a "bottom up" or operational risk approach to risk mapping for the

pilot risk mapping project, with the understanding that it would have a strong and helpful impact on risk awareness and mitigation in the operational departments. A more strategic or "enterprise wide" approach to risks was deferred to after the initial operational risk mapping exercise was complete. It was also decided to limit the exercise to an assessment of whether each departments' mitigation of the negative aspect or "downside" of risk could be improved, and did not include exploring how the City might further exploit opportunities presented by the positive or "upside" of risk management.

The program pilot in the Transit Division developed enhanced levels of awareness of the context in which the operations were carried out, what those operations entailed, identified the operational risks that arose out of those operations, measured the likelihood that the risk would occur and the typical size of the impact of any negative risk events, identified current and proposed mitigation measures, and communicated the risk information to those that were in the best position to approve and direct mitigation efforts. This allowed the employees and managers to improve the management of uncertainty in their operations, and to ensure that those in the best position to make risk management decisions had the information they needed to take decisions that would result in effective and timely mitigation of those risks. Once the Transit Division pilot program was completed, the limited operational risk mapping program was expanded to all departments within the City's Administration. The risks identified in this process were recorded in a risk map for each section, branch and department, and were rated, ranked and prioritised in relation to the other risks identified by each section and branch to allow for the most effective allocation of mitigation resources. The risk register of operational risks was completed and was collated to a City "Top Ten" list of operational risks, by June 2010.

As indicated above, upon conclusion of the operational risk mapping pilot, the program was intended to extend to include identification of more strategic, "top down" enterprise wide upper management and Council risks and mitigation strategies. The next steps in implementing the full program were to:

$ establish a senior risk committee to clarify goals and expectations for the full ERM program, to set and monitor a risk reporting structure, to monitor the effectiveness of the program, to provide leadership in the design and implementation of the expanded program, to set roles and accountabilities for risk management, and to determine resources and support for the program;

$ identify, assess and mitigate/exploit of strategic and enterprise level risks at the upper management and Council levels;

$ continued review of each operational risk map by key departmental personnel to ensure that they were keeping abreast of any changes in the risk profile for each section, branch and department, and to ensure that the best possible mitigation strategies in relation to each risk were identified and utilised;

$ develop ongoing education programming and materials to ensure that new and existing employees were aware of resources and responsibilities for risk management;

$ continue to review and modify the ERM program to ensure that the program was achieving objectives, adopting best practices as they developed, and contributing to the continuous improvement of management at the City.

This extension was not implemented, and the program has been on hiatus since the operational risk map was completed.

Case Studies in Current Best Practice in Public ERM

Most public bodies in Canada are exploring ERM programs for their operations, and several have mature programs already in place. Administration surveyed several of the cities and provinces in Canada that have ERM programs. A sampling of programs of interest follows.

Calgary has an active and mature ERM program, in addition to its traditional insurance, claims and loss prevention risk management program. Calgary's ERM program is also based on the NZ/ISO standard, and is very similar in design to our process. The program is called the Calgary Integrated Risk Program, and is administered out of the City Manager's Office. Their program began with a "top down" review and mapping of more strategic or "enterprise wide" type risks, and used the ISO/NZ process to ensure that the root cause of each risk was analysed. We were advised that the program was developed initially with the assistance of consultants to compress the time required for initial risk identification and mapping, but on an ongoing basis is run without assistance from consultants in order to ensure that the program remains useful and relevant to management, promotes a culture of risk awareness within the City, and does not become a compliance/audit type program. The process seeks to assist management to identify measure and rank current and emerging risks, and identify current and proposed mitigation measures, all within the context of identified goals and objectives. Their risk map is reviewed and updated regularly, as is the program itself, to ensure that the most up to date process and information is available to management to assist with the ongoing functioning and optimization of the City administration. There is an ERM committee of senior management that meets regularly to provide direction to the program, and ensure the most effective use of the City's risk resources. The program is embedded into reporting and budget cycles through an ongoing education program for new and existing employees, a requirement that any and all reports going to Council and budget include a risk section, setting and monitoring goals and accountabilities for identified risks and treatments, and by ongoing review and update of departmental and City wide risk registers. Upper management and Council support is critical, in their view, to the success of the program.

The Administration was advised that London, Ontario had a ERM program that was well integrated with internal audit. We contacted the risk manager for the City of London, Ontario, who indicated London does not run a formal ERM program, and they are unaware of any such program, or initiative to develop one, in the City. The City of London risk manager administers an extensive traditional risk management program, consisting of management of insurance programs, claims, and a very active set of loss

prevention initiatives. The risk manager has not yet recommended an ERM program to the City of London because in her view the concepts and practice of ERM are still developing, and are not yet sufficiently defined and clarified. We have a copy of the City of London's most recent RFP for internal audit services. The document discloses the standard language recommended by the IIA for the provision of services in respect of risk management, but does not seem to ask for the proponent auditor to supply and operate an ERM program. Also, the Administration spoke with a member of the Price Waterhouse Coopers internal audit team for the City of London. He indicated that their program identifies and evaluates risks for the city for the purposes of the audit program, but they do not operate an ERM program for the City of London.

The British Columbia provincial government has one of the most mature and extensive ERM programs in all of Canada, which has been in operation since 2002. The program has been embedded in all provincial departments through education and reporting requirements, and in 2011 was renewed to ensure more consistency and compliance across all ministries in terms of practice and reporting. The program aims to develop an enhanced culture of risk awareness and continual improvement of risk management practice. The province has set up a department that is responsible for administering the program, which provides education, resources, and advice to all other departments. Risk reports from all ministries are required under the program, are collated at the deputy minister level, and updated mitigation progress reports are submitted at six month intervals. The program is also based on the ISO/NZ standard, and uses a standard five point objective/subjective scale to rank risks for impact and frequency for ranking purposes. Their standard risk map, while a somewhat complicated document, records the above information as well as information regarding time-lines and accountabilities for dealing with each risk. The department offers extensive ongoing education to employees and managers in all departments to ensure that their internal risk programs are meeting objectives set by the province, and to ensure that the risk knowledge and culture throughout the administration of the province are mature and productive. The department also administers extensive insurance and claims handling programs.

Best Practices - Ideal Program

The ideal ERM program, based on studies done by the Risk and Insurance Management Society, who are leaders in the field, is one that assists managers and employees to take an informed, proactive and effective approach to managing the uncertainties inherent in the activities and programs they administer. It works by educating employees and managers on the application of the basic principles of risk management so they are better able to manage the uncertainties in their activities, and thus increase the likelihood of achieving goals and objectives. It also works by identifying and embedding processes in planning and operations through various means to ensure that risk is considered and managed in all aspects of the work of the enterprise. It assists management to attain the goals and objectives set for it by providing proven processes that aid in identifying and mitigating the uncertainties that may impede the achievement of those goals and objectives, thus preventing unpleasant

surprises and contributing to the ongoing improvement of management processes. It allows management to take a risk informed and managed approach to new and existing programs and projects, thus leading to greater creativity and confidence, and enhanced performance. Information about risks arising out of activities is appropriately shared vertically, horizontally, and inwardly/outwardly, between all internal and external stakeholders, through meetings, reporting requirements, risk mapping, education sessions, newsletters/emails and web-pages. New and existing employees receive ongoing training and reminders about the basic risk management principles and language, and their application in the particular context of the individual employee's work, and in the broader activities of the enterprise. The program and the risk information it produces are consistent across the organisation, and updated and reported regularly, with input from all levels of the organisation, including at the highest level. It is actively championed by the most senior levels of the organisation, and provided with sufficient resources to ensure the success of the program. It works with audit to inform the auditor's work, from management's view, of the risks of the corporation and their mitigation, and provides a vehicle to respond to issues raised by the auditor with respect to success of management's risk treatments, and the enhanced functioning of the program itself. Benefits of such a fully functioning ERM program, identified by those with mature programs, include:

- ﹩ a culture within the organisation of constantly evolving and improving management of risk and opportunity, including the mitigation of negative risk impacts and exploitation of positive risk outcomes;

- ﹩ a culture of "smart" risk taking, including the ability to be more confident in adopting new programs and processes through effective risk management;

- ﹩ continuously improving management performance; and,

- ﹩ cost savings through more effective and efficient use of resources.

Our current ERM program is based on these principles, and only requires the steps recommended above to begin a full implementation of the program. The ERM program, and the relationship between the audit and ERM functions, should be directed by this committee, and managed to maturity based on these ideals.

Role of Internal Audit

The historical role of audit with respect to ERM programs has been to receive and review risk identification and mitigation information, to suggest improvements to the risk management practices of the operational departments, and to review the risk management program itself to suggest improvements. The Institute of Internal Auditors (IIA) has in recent years has advocated for a more active role in developing and reviewing risk management programs, but the IIA continues to recommended against the ongoing management of risk by internal audit in order to avoid a conflict with audit's role to review and suggest changes (see *Internal Auditing's Role in Risk Management*, The Institute of Internal Auditors Research Foundation, March 2011 at pp 12-13. In addition, the new IIA Standard 2120-Risk Management, indicates at 2120.C3 that "When assisting management in establishing or improving risk management processes,

internal auditors must refrain from assuming any management responsibility by actually managing risks.")

City of Saskatoon Council Policy No. C02-032, speaks to the role of internal audit in risk management for the City at Section 5.6. This policy indicates that risk management is a key management role, and that the auditor will "assist the organisation by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems." Administration Policy A02-004, Risk Management, does not speak to an ERM function, or audit's role in such a program, and should be updated to reflect enhancements to the program as indicated earlier.

Auditors can bring valuable resources and skills to the risk management function of any organisation, but must retain their objectivity so as to be able to perform their primary function of reviewing and critiquing management roles and performance.   Typical roles for audit have included bringing additional resources to the initial risk mapping and program design stages to compress time lines for start up of the program (U of S, Calgary), providing expertise in quantitative approaches to risk evaluation and ranking, and critiquing management's performance in respect of management of operational and strategic level risk. Any firm awarded the contract for the City's internal audit function must bring sophisticated and skilled risk audit resources to the program in addition to those of a typical financial auditor.