
For Information

REPORT TITLE: Risk Management Functions

FROM: Jennifer Weinman, Interim Director, Enterprise Risk and Audit Services

OBJECTIVE

To provide information about the risk management functions at the Region as requested by the Audit and Risk Committee.

REPORT HIGHLIGHTS

- The Audit and Risk Committee requested information about the various risk functions across the organization and the corporate risk management function.
 - The Institute of Internal Auditors' Three Lines Model is used to explain the risk management responsibilities of:
 - Service area management,
 - Subject matter experts, and
 - Internal audit.
 - Management is responsible and accountable for achieving service outcomes and managing and monitoring risks in pursuing those outcomes.
 - The subject matter experts support management in pursuing service outcomes, including the Enterprise Risk Management function.
 - The Enterprise Audit Services team provides value-added advice, assurance and internal control services that support organizational success.
 - Enterprise level risk management and service level risk management complement each other and help in managing risks for the Region of Peel.
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DISCUSSION

1. Background

The Audit and Risk Committee, at the September 17, 2020 meeting, requested information on the various risk functions across the organization and the corporate risk management function; including information regarding the manner in which each function is guided through the various bodies or legislation that dictate their role. Enterprise Risk and Audit Services gathered information on risk management functions/activities and governing bodies/legislation through its network of risk champions and other Regional staff as needed.

Risk management is both a formal, disciplined practice that involves tools, processes and consistent terminology, and an informal practice that managers routinely carry out during daily decision making, without the involvement of formal processes and tools. This report will discuss how risk management is practiced at the Region through a variety of formal approaches. For the purposes of this report, risk management is defined as coordinated

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activities to direct and control an organization with regard to risk. The risk management functions are presented using the Institute of Internal Auditors' Three Lines Model. This Model explains the roles and responsibilities of service area management, various subject matter experts supporting service delivery which includes Enterprise Risk Management, and internal audit.

2. Risk Management Functions

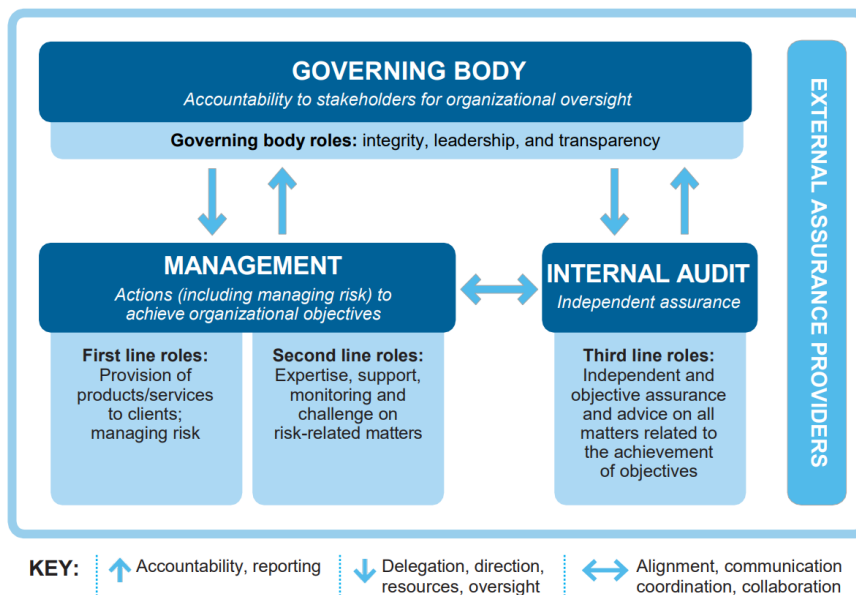
The Institute of Internal Auditors has developed the Three Lines Model that explains the roles and responsibilities of the following groups in managing risk in an organization:

1. Service area management
2. Subject matter experts, including Enterprise Risk Management
3. Internal audit

The Three Lines Model helps identify the structures and processes that best assist the achievement of business objectives and facilitates strong governance and risk management. Diagram I of the Three Lines Model, from the Institute of Internal Auditors (IIA), is included below to explain the roles, responsibilities, and their interconnectivity in achieving business outcomes and undertaking risk management.

Diagram I

The IIA's Three Lines Model



Enterprise Risk and Audit Services has leveraged the Three Lines Model to help explain the role of management, subject matter experts and internal audit, in assessing and mitigating risks related to delivering services and achieving the Region's strategic plan outcomes; the Term of Council Priorities, organizational priorities and service outcomes. The Region of Peel's risk management functions can be aligned with the Three Lines Model as briefly explained below:

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- i) **Service Area Management** is the first line that is directly responsible for achieving service outcomes. The role of management as the first line includes:

- Leading and directing actions (including managing risk) and application of resources to achieve service outcomes
- Establishing and maintaining appropriate structures and processes for service delivery and the management of risk (including implementing internal controls)
- Ensuring compliance with legal, regulatory, and ethical expectations

The Region provides 24 diverse services to residents and businesses of the City of Mississauga, City of Brampton and the Town of Caledon. Regional Council and its various Committees play a governance role. The Region's leadership and management teams are responsible for service delivery, achievement of service outcomes and management of risks that could impact achievement of outcomes. It is often required by legislation, regulation, and professional bodies of knowledge for the Region to embed risk management activities within the systems and processes for service delivery. For example, the Ministry of Health and Long-Term Care requires that Public Health and Long Term Care must have risk management plans.

- ii) **Subject Matter Experts** are the second line. The role of subject matter experts is to support service area management in pursuing service outcomes through:

- Providing expertise, support, monitoring, and challenging the approach taken to risk management consisting of:
 - The development, implementation, and continuous improvement of risk management practices (including internal control) at a process, system, and organization level. For example, Economist, Legal Services, Information Technology, Human Resources, Enterprise Risk Management.
 - The achievement of risk management objectives such as: compliance with laws; regulations and acceptable ethical behavior; internal control; information and technology security; sustainability and quality assurance. For example, oversight from the Regulatory Compliance team in Water and Wastewater division and the Risk and Audit function within Peel Regional Paramedic Services.
- Providing analysis and reports on the adequacy and effectiveness of risk management (including internal controls).

- iii) **Internal audit** is the third line. The role of the internal audit function, carried out by the Enterprise Audit Services team, includes:

- Communicating independent and objective assurance to management and the Audit and Risk Committee on the adequacy and effectiveness of governance and risk management (including internal controls) to support the achievement of organizational objectives.
- Providing advice to management to promote and facilitate continuous improvement in the area of risk management and internal controls.

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3. Enterprise Risk Management

The Enterprise Risk Management program was launched at the Region in 2011, with a goal to bring a systematic approach to managing and monitoring risk at an enterprise level. The program is expected to offer the following benefits:

- Enhance corporate governance
- Help identify and manage multiple cross organizational risks
- Improve and enhance risk response decisions
- Position the organization to effectively respond to changes in the business environment
- Proactively indicate that the organization is monitoring and managing risks
- Allow the Region to recognize and seize opportunities

Enterprise Risk Management provides the best value when it is embedded within the organization's planning, governance and decision-making processes. Since the program's launch, the Region has developed a risk management policy, defined risk categories and types, developed a risk management framework, processes, Risk Appetite Framework and embedded risk analysis in Council decision reports. Further, the Region has developed a Corporate Risk Profile based on the Strategic Plan and Term of Council Priorities. The Profile is refreshed annually, and its status is communicated to Regional Council and staff. The information from the Corporate Risk Profile serves as a key input to various decision making activities including the annual budgeting process.

4. Alignment between Enterprise and Service Level Risk Management

Enterprise Risk Management is a top down approach to risk management at the Region, mainly focused on risks at the strategic level. It facilitates operational level risk assessment as requested by the service area. Similar to Enterprise Risk Management, some subject matter experts focus on the strategic level and assist service area management with their operational needs. For example, Legal Services represents the Region but also assist the service area management with legal advice.

Service level risk management is a bottom up approach to manage and monitor risks with a specialized operational focus that feeds into the Regional Strategic Plan. Service level risk management takes place on an ongoing basis in the first line from the Three Line Model. For example, the Housing Support service feeds directly into the Term of Council Priorities and the Region of Peel Strategic Plan. Management, accountable for the Housing Support service, is also responsible for implementing appropriate processes and controls to support the achievement of the service outcome related to affordable housing and homelessness, and risk management.

As each service area possesses expertise in the service they offer, they are in a unique position to address service level risks. Each service area is guided by distinct legislation and/or governing bodies and may have similarities and differences to the Enterprise Risk Management Framework, processes, and terminologies. Enterprise Risk Management is intended to provide guidance and opportunity to align specialized service level risk management to enterprise risk management where possible. Enterprise Risk Management supports the service area as needed by creating tools, facilitating risk management workshops, providing trainings to help assist the organization managing risks.

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Enterprise level risk management and service level risk management complement each other and help the Region manage its risks. There are opportunities to draw connections between enterprise risk management and service level risk management for the purpose of tracking and reporting on the key operational risks and leveraging available tools and expertise between the Enterprise Risk Management program and service level risk management teams. As the Enterprise Risk Management program matures at the Region, the opportunities to draw these connections will be enhanced.

CONCLUSION

There are a number of ways risk management is carried out across the Region of Peel and a number of factors that guide how risk management is undertaken. Enterprise level risk management and service level risk management complement each other and help in managing risks for the Region of Peel.

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