



Approaches to Corporate Risk Management

Strengthening Risk Informed Decision Making

**Presented By: NSM CCAC
OACCAC Conference
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Learning Objective:

Through an interactive approach:

- Learn how to establish board risk appetite and risk tolerances with your organization's board members
- Learn how to strengthen risk management and risk informed decision making through the application of the Board's risk appetite and tolerances



What is Enterprise Risk Management?

“Enterprise Risk Management (ERM) is a strategic process, applied across the organization, designed to identify events that may affect the achievement of the organization’s goals, **to manage them within the organization’s risk appetite**, and to provide reasonable assurance regarding the achievement of the organization’s objectives.”

Adapted from the Committee of Sponsoring Organizations of the Treadway Committee (COSO)



NSM CCAC ERM Journey

- Initial ERM Framework approved in 2011
- Continuous journey; annual review and revisions each fiscal year
- Annual organizational risk identification and assessment
- Risk register used for risk reporting to board and management
- Significant step forward in 2014 with the development of Board risk appetite and tolerances



Value of Developing & Using Risk Appetite and Tolerances:

- Provides a shared understanding of the amount and type of risk the organization is willing to take
- Encourages the organization to take measured risks in order to generate value and avoid intolerable losses (threat vs. opportunity)
- Supports Board decision making that aligns with their risk appetite and tolerance
- Supports organizational decision making in setting and managing the achievement of organizational objectives
- Assists the Senior Leadership Team to manage identified risks within the Board's appetite and tolerance per risk category



Definitions

Risk Appetite:

- An organization's overarching strategic approach to risk.
- It is a powerful driver to how an organization conducts its business and is perceived by its stakeholders

Risk Tolerance:

- The acceptable level of variation relative to the achievement of a specific objective.
- Risk tolerance is the risk exposure an organization determines appropriate to take or avoid taking in pursuit of its objectives.



Risk Tolerance:

The amount of risk an organization is willing to accept is dependent on a number of factors:

- The assessment of opportunities vs. threats
- Its people and culture
- Stakeholder needs
- The external environment
- The organization's level of maturity
- The interconnectivity of its risks (tradeoffs across categories)

Approach Taken

1. Board Risk Tolerance Survey

	Zero (1)	Low (2)	Modest (3)	Moderate (4)	High (5)	Total	Average Rating
STRATEGIC - Strategy and Performance: Uncertainty that the organization's strategic goals and objectives are aligned across the organization and/or with the Ministry of Health and Long-term Care (MOHLTC) or the Local Health Integration Network's (LHN) mandate and that the organization is able to respond effectively to changes and events in the community, economic and political environment and to manage the impact of these factors on the organization's strategies and operations. This includes the uncertainty that the organizational structure is optimal and supports effective decision making and/or planning and management of operations.	22.22% 2	44.44% 4	11.11% 1	22.22% 2	0.00% 0	9	2.33
1 / 2							
Establishing Risk Tolerance - Board							
STRATEGIC - Stakeholder Relations and Public Perception: Uncertainty that the organization is able to establish and effectively manage appropriate relationships with the MOHLTC, the LHN and other stakeholders and system partners across the region. Uncertainty that the organization will meet the expectations of the public, the MOHLTC, the LHN and/or other stakeholders.	11.11% 1	66.67% 6	11.11% 1	11.11% 1	0.00% 0	9	2.22
ACCOUNTABILITY/GOVERNANCE - Governance, Oversight and Accountability: Uncertainty that the board and committee structure is adequate and effective with clearly defined roles, responsibilities and processes to support good governance. This includes risk of conflict of interest and/or inadequate ethical codes of conduct.	22.22% 2	66.67% 6	11.11% 1	0.00% 0	0.00% 0	9	1.89
ACCOUNTABILITY/GOVERNANCE - Compliance/Legal: Uncertainty that the organization is in compliance with all relevant legislation, regulations, policies, directives and/or legal agreements. This also includes the risk related to the potential cost of complying with new legislation/policy/contractual requirements and/or the cost of litigation. The costs related to changing	55.56% 5	44.44% 4	0.00% 0	0.00% 0	0.00% 0	9	1.44

- Gathered information from each Board member through an online survey
- Each Board member indicated their own tolerance level for each of the risk categories/ sub-categories of the ERM Framework



NSM CCAC ERM Framework Risk Categories

Risk categories:

- 1.Strategic
- 2.Accountability/Governance
- 3.Client Safety and Quality
- 4.Information and Technology
- 5.Human resources
- 6.Other



Risk Tolerance Scale

The average numerical score for both the survey and the scenarios were translated into a risk level using this scale:

Score	Risk Tolerance Level	Descriptor
0 – 1.4	Very Low (Zero)	Not willing to accept risk
1.5 – 2.4	Low	Willing to accept a very limited amount of downside risk (threat) when the upside risk (opportunity) exceeds the downside risk.
2.5 – 3.4	Modest	Willing to accept some downside risk in certain circumstances that include opportunity
3.5 – 4.4	Moderate	Willing to accept downside risk equal with the potential opportunity
4.5 – 5.0	High	Willing to accept a high level of downside risk in circumstances where there are significant or important opportunities



2. Board Risk Tolerance Workshop

- Utilized scenarios to gather information regarding the Board members' tolerance for various types of risks **when trading off against an opportunity**
- Used voting technology followed by discussion

Approach Taken



Risk Tolerance Workshop Participant Workbook

March 27, 2014

NSM CCAC Board Meeting



Survey Simulation

Accountability /Governance - Compliance/Legal Risk

Definition:

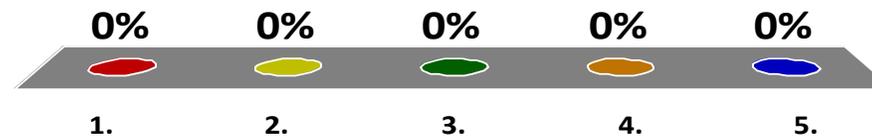
Uncertainty that the organization is in compliance with all relevant legislation, regulations, policies, directives and/or legal agreements.

What is your risk tolerance level in this risk category?



Risk Sub-Category: **Compliance/Legal**

1. Very Low
2. Low
3. Moderate
4. High
5. Very High



Mean =



Board Risk Tolerance Workshop Simulation

Scenario 1: Funding and Balancing of Budget

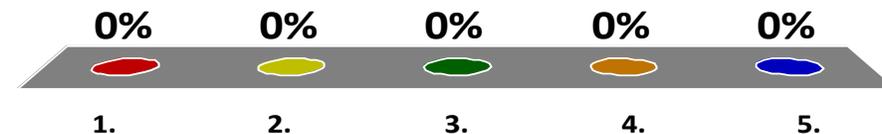
CCAC funding is not confirmed until well into the third quarter. In addition, one time funding can be announced at any time throughout the year. This presents a significant challenge as CCACs must balance their budget annually but must also return unused funding to the LHIN.



Scenario 1

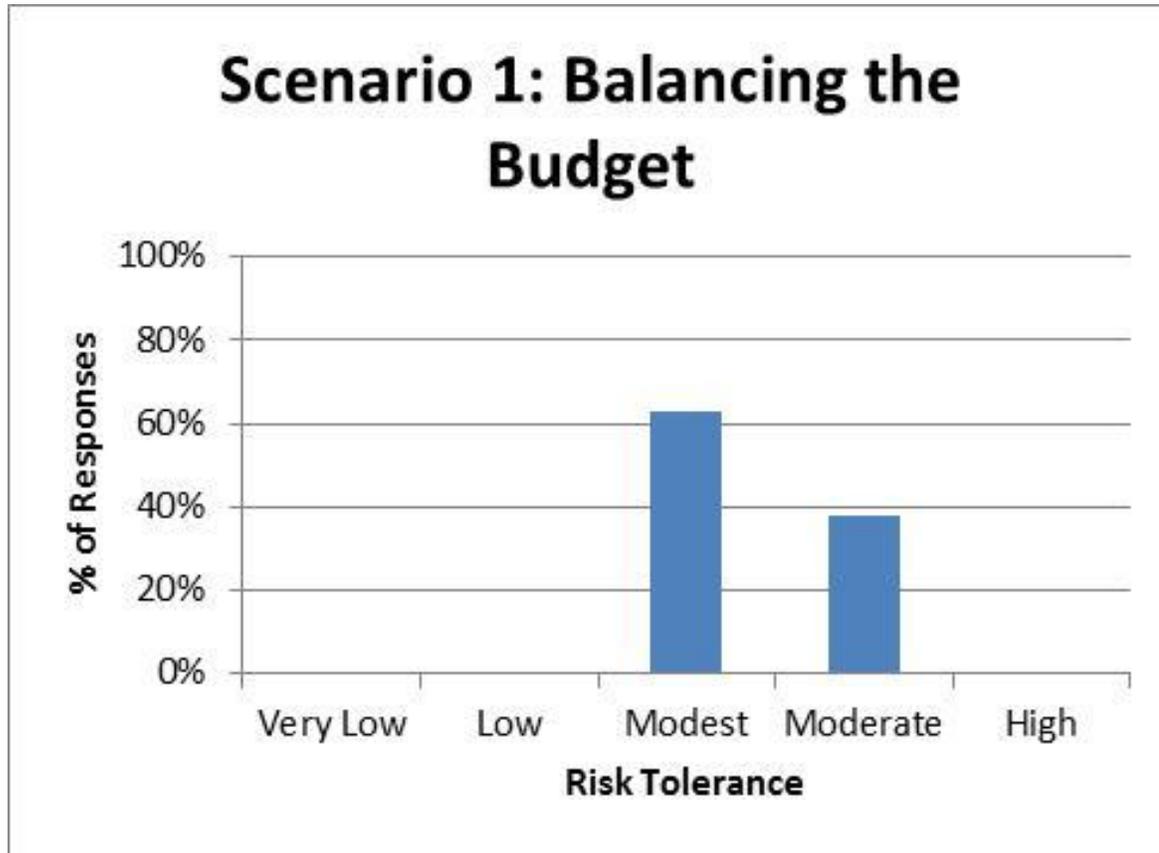
As they approach the beginning of the new fiscal year, the CCAC should:

1. Assume there will be no increase to base budget
2. Make a very conservative assumption regarding increase
3. Make a reasonable assumption regarding increase
4. Make an aggressive assumption regarding increase
5. Implement a strategy to eliminate waiting lists



Mean =

Scenario 1: Funding/ Balancing the Budget



- Scenario tested tolerance for **Compliance/Legal risk** (not balancing the budget) with the opportunity to provide **access to care** for patients
- NSM CCAC Board average was 3.4 (modest) with very little variation

Scenario vs. Survey Results



Why was that? Experience?

"...moderate level of risk was not all that risky last year"

- The survey results suggested the opposite - **compliance risk tolerance very low** versus **service provision risk tolerance low**
- *"...started at the highest access for patients and worked down until the financial risk was tolerable"*
- In the scenario, the Board was prepared to take more compliance/legal risk (modest) for the opportunity of improving access to service for patients



Board's Reflection on the Process

“Created a lively discussion... individual experiences were shared...better understanding of fellow board members and their diverse experience/life experiences”

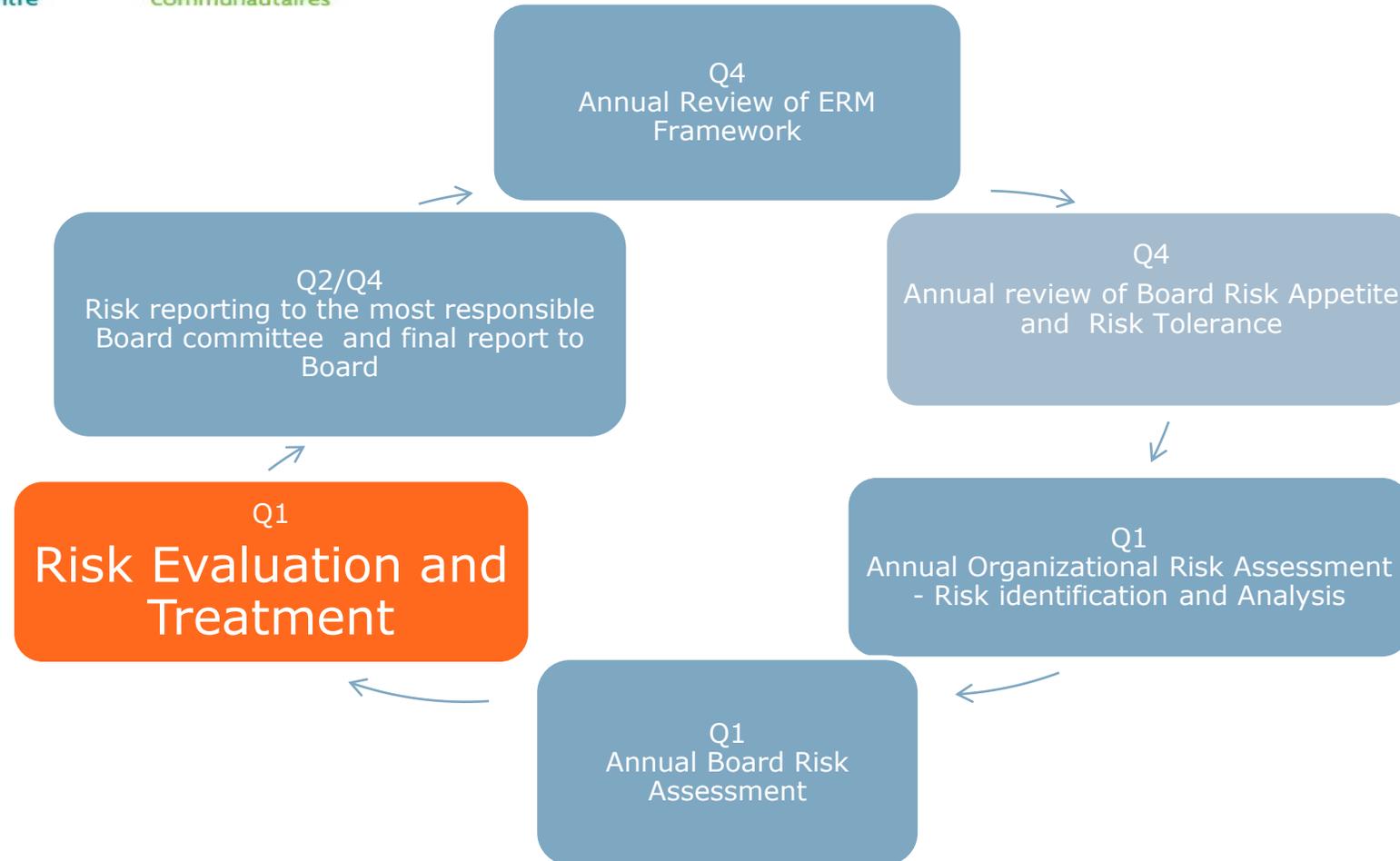
“Aligned the Board and Staff thinking and each other's expectations.. operations vs. governance..”



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Enterprise Risk Management Annual Cycle





Organizational Risk Register 2015-16

NSM CCAC Organizational Risk Register 2015-16

Risk Sub-Category	Most Responsible SLT Portfolio	Board Committee Oversight	Risk	Risk Score (Jun 2015)	Risk Level (Jun 2015)	Risk Level (Oct 2015)	Risk Tolerance Level (Board)	Risk Tolerance Gap (Board) (Jun 2015)	Controls	Control Score Gap	
Information/ Information Technology	Mark Szwarc	Client Service & Quality	Risk of insufficient information to manage internal operations due to competing priorities for information requests.	4.50	Very High	High	Moderate		2.00	-2.50	- Opera - SMA P
Workforce	Debbie Roberts	Client Service & Quality	Risk that the organization will be unable to resource clients service operation			High	Moderate		2.06	-2.07	-New PA -Culture - Quality - HOOP - Meet a - minimiz - NSMC -Could
Client Service Contract Risk	Debbie Roberts	Client Service & Quality	Risk of being in breach of contract as we implement new models of service delivery	4.00	High	Moderate	Very Low		1.00	-3.00	- Marke contract effective - Very I Not emb - Contra gather o - Little t we are

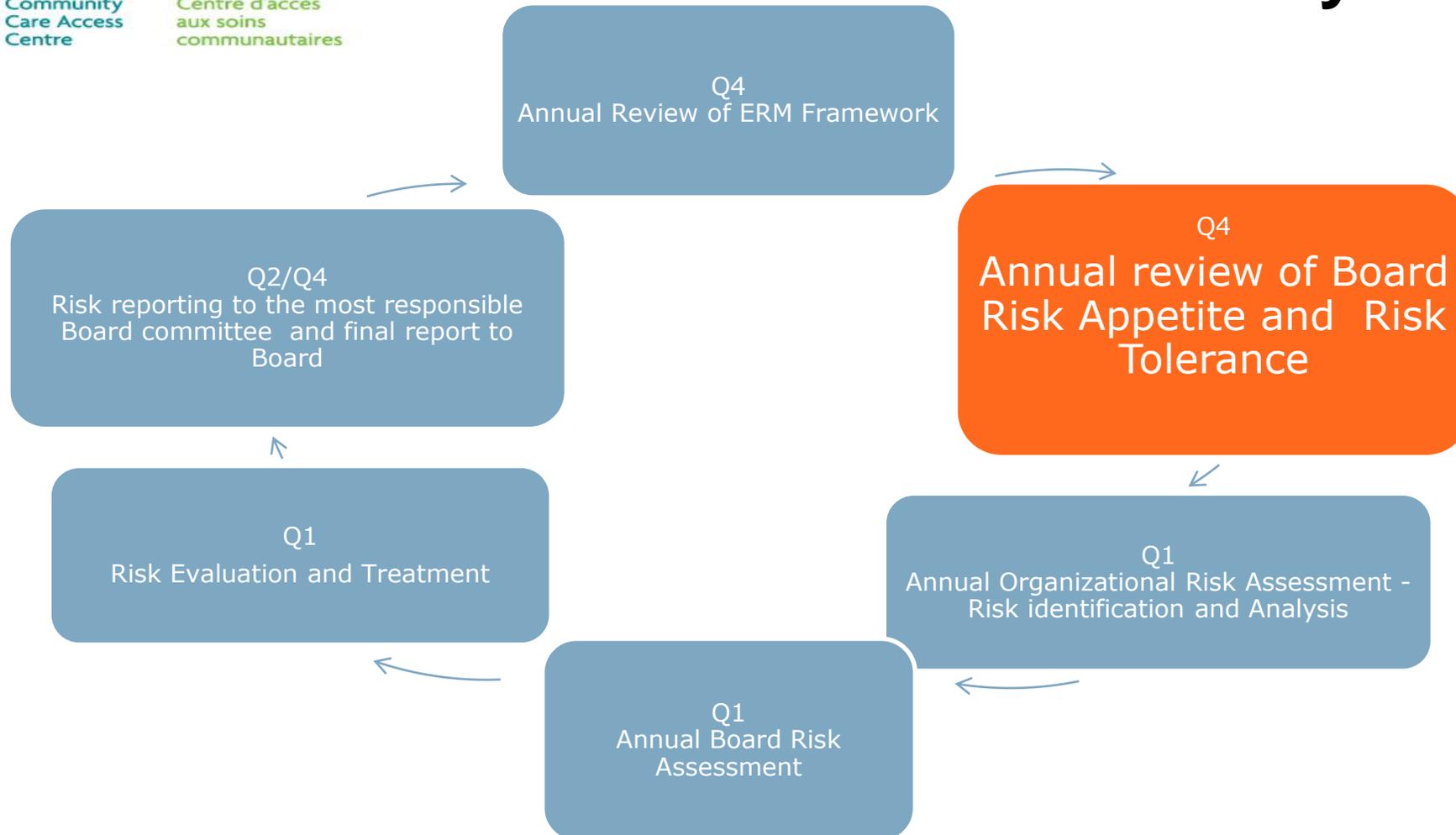
Compare risk score to Board's risk tolerance to determine need for further controls



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Risk Appetite and Tolerance Refresh

Recommendation:

That the Board of Directors, in Q4 of each year undertake a process to refresh the Board's risk appetite and tolerances.

- This will strengthen Board and staff decision making by ensuring that risk appetite and tolerances are relevant and reflective of the current context and environment

Proposed Refresh Process



- Each Board member to complete a survey includes brief scenarios
- The scenarios will test the Board members' tolerance for risk within and across each of the risk categories allowing opportunity to evaluate risk against opportunity
- Follow-up discussion with Board will focus on the areas where scores differ greatly between board members; revote in these areas
- Board's risk appetite and tolerance to be updated based on outcome of results and discussion



Value of Risk Tolerance in Board Decision Making

- Board has a better understanding of the complexity of decisions being made
- Has supported risk informed decision making - balance of the upside and downside of risk (threat vs. opportunity)
- Board is more willing to accept a downside risk for the upside opportunity



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Thank you!

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