First Nations FINANCIAL MANAGEMENT BOARD | LE CONSEIL DE GESTION FINANCIÈRE des Premières Nations

Introductory Guide to Risk Management

In First Nation Organizations

2016

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As we move through the introduction of Risk, we will come across a number of concepts.

These concepts will be summarized into two parts, with a definition of what the concept means in this guide, and why it is important for organizations to consider this concept in their business planning.

Concept

What is it?

Why is it important?

WHAT IS RISK?

The concept of risk is important for all organizations as it helps you think through what could go wrong and what you need to do to plan for these events.

Risk Management is the process used to plan for these events. Good Risk Management means thinking about the things that could go wrong in advance, and putting in place plans that reduce the potential impact of any event before it happens.

This guide has been produced with your First Nation in mind. It has been designed to provide you with a set of usable tools that we hope will ensure that you can undertake a process that starts both a conversation on risk in your organization and allows you to support Chief and Council and senior management to manage risk.

Risk

Risk is the possibility that a negative event will happen.

It is important to plan for events before they happen to give you the best chance of achieving your objectives.

HOW RISK FITS WITH STRATEGY

Organizations need to set priorities/goals and make plans for what they want to do or achieve in the short and long term. These priorities and goals, usually set out in a strategic plan and reflected in departmental workplans, require effort and investment. Within that process, it is critical to think about anything that would stop you from achieving the objectives in your strategic plan.

There is a strong link between strategic and departmental planning, and risk. Our Financial Management System (FMS) certification process has been designed to ensure that First Nation governments plan well. We therefore hope that your First Nation will have already created a strategic plan or is working towards completing one, as part of the FMS process. Departmental plans should be aligned to the strategic plan, and its vision.

Your strategic plan has a focus on where you are today and where you need to be at some point in the future. What the strategic plan may not focus on is how the different priorities/goals interact and what happens if one or more of the priorities/goals is not achieved.

Risk Management is therefore the process of increasing the chance that your First Nation achieves its vision (and delivers on its strategic priorities/goals) as shown below:

Figure 1 – How Risk fits with Strategy

The process set out in this guide allows you to make the links between your strategic and departmental plans, and manage the risks that you identify.

WHAT IS RISK MANAGEMENT?

Risks are uncertain events and not all risks are 'equal'. Some risks are relatively easy to manage and other risks can be catastrophic for an organization. Risk Management allows you to put a plan together on how to assess different types of risk and manage the most important ones.

Organizations cannot predict if and when these events might happen. However, based on experience and critical thinking, leadership and staff can consider the types of events that could happen in the future and the impact they would have on your organization if they did happen.

Therefore the process of Risk Management identifies possible events and assesses the likelihood that the event will happen and its impact on your organization.

More specifically, Risk Management is the process and set of activities to identify, evaluate, plan for, and monitor risks in a structured framework. Risk Management is most effective when done across all areas of your organization and is aligned to your organization's vision, strategic priorities and departmental plans.

This framework includes the supporting policies, procedures, and practices to support good Risk Management. Risk Management in any organization is known formally as Enterprise Risk Management (ERM).

By considering the principles in this guide, and by using our risk templates, your organization will be able to assess and manage the risks to achieve your strategic priorities/goals.

Risk Management

The framework to manage risks in any organization, such as a First Nation government.

It is important for organizations to know what potential risks are, the effect they can have, and how

THE RISK MANAGEMENT PHASES

The Risk Management process that we will be using in this guide has four phases and is shown below:

Figure 2—Risk Management Phases

The process is designed to be straight-forward and we have developed a toolkit to assist you in each of the four steps of the process.

We suggest that Phases 1, 2 and 3 be done, at a minimum, annually to ensure that the current environment is considered allowing for a refreshed view of current risks. It is important to add perceived risks when they have been identified, regardless of the point in your Risk Management cycle. Phase 4, your Risk Management plan, is a continuous activity to manage priority risks.

Phase 1—RISK STATEMENT

Identify adverse events and assess possible impacts. These will become your Risk Statements. This usually involves the different leaders within a First Nation—Chief and Council, administration, departmental managers, etc. To assist with this process we provide 5 examples in Table 1 of identified Risk Statements:

Table 1—Risk Statement Examples

DEFINE: RISK STATEMENT	
Event	**Impact**
Not recording our stories and language	Loss of our culture
Lack of succession plans	Loss of 'corporate knowledge'
Delaying infrastructure/asset maintenance	Infrastructure failure; Increased costs
Funding shortfall due to discontinuation of grants	Reduced or cut services to members
Not linking cultural values to economic development activities	Lack of community support for investments

The Risk Theme tab in the Introductory Risk Management toolkit will help you get the risk conversation started with examples of Risk Statements.

Phase 2—RISK REGISTER

List all of the Risk Statements (made up of events and their possible impacts) into a table we call the Risk Register, included in the Introductory Risk Management toolkit.

The Risk Register is a table that sets out all the risks in an organized way under the headings below.

Table 2 - Introductory Risk Register Example

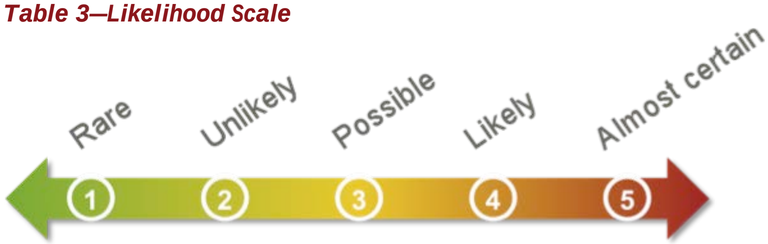
Define: Risk Statement		Evaluate		Monitor and Manage		
Event	**Impact**	**Likelihood Score**	**Impact Score**	**Risk Management Plan**	**Contingency plan**	**Owner**
Funding shortfall due to discontinuation of grants	Reduced or cut services to members	3	4	**Reduce / Mitigate** Develop other ways to fund the programs and use a portion of own source revenues for core cultural programs	Identify ways to combine service delivery to reduce costs in case of funding cuts.	Finance

Evaluate the identified risks by scoring two risk factors:

1. The likelihood of each risk occurring; and
2. The impact of each risk (relative to each other).

For each of these factors, the scoring is defined in Tables 3 and 4 as follows :

Table 3—Likelihood Scale



Rare:	1	Highly unlikely, but it may occur in rare circumstances.
Unlikely:	2	Not expected to happen but the organization can see things that might cause an event to happen.
Possible:	3	Might occur at some time as there is a history of casual occurrence or the organization can see things that may cause an event to happen.
Likely:	4	There is a strong possibility the event will occur as there is history to support more frequent occurrence or the organization can see things that will likely cause an event to happen.
Almost Certain:	5	Very likely to happen. Very little chance this might not happen.

Table 4—Impact Scale

Insignificant:	1	Almost no impact.
Minor:	2	Event has limited impact on the First Nation (and would typically be managed by front line or departmental staff).
Moderate:	3	Event has some impact to the First Nation (and typically requires a departmental head/senior management solution).
Major:	4	Event has a serious impact to the First Nation (and typically requires leadership discussion and solutions and structured community engagement).
Catastrophic:	5	Event has a long-lasting and irrevocable impact on the First Nation (and typically needs a high level of leadership, management and significant community engagement).

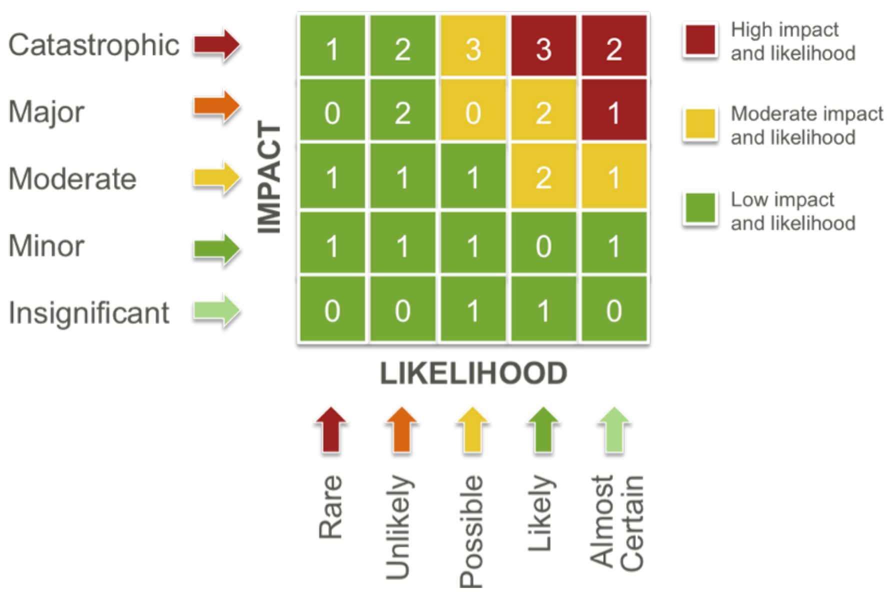
Impact is more difficult to score because there can be a number of different impacts that have different costs (e.g. the cost is often not financial, but could be detrimental to the environment, to reputation, to health, to culture, etc).

During discussions on impact you will need to weigh different risks with different contexts and decide, relative to each other, where each fits on the scale from 1 to 5 above.

Phase 3—RISK DASHBOARD

Compile the Risk Dashboard. Once completed, the Risk Register creates an Excel self-populating table in the Introductory Risk Management toolkit that shows the scored risks within a 'traffic light' format that provides a quick view of those risks. We call this table the Risk Dashboard**,** which is shown below.

Figure 3—Risk Dashboard



The colors of the Risk Dashboard represent the risk likelihood and impact levels, and the numbers in each box represent the number of risks falling within that level.

The Risk Dashboard should be used at various levels in your organization to manage the highest impact and highly likely risks. Typically, Chief and Council task themselves with monitoring the "Red rated" risks and the administration is tasked with managing both the "Red rated" and "Orange rated" risks, depending on the numbers identified.

Some organizations choose to manage all the "Green rated" risks as well, however it is often difficult to manage all these risks given the available resources within organizations.

In the previous example, Chief and Council would be tasked with monitoring 6 risks. Administration would be tasked with managing 14 risks (the total of the red and orange boxes).

Phase 4—RISK MANAGEMENT PLAN

Chief and Council will need to decide responsibility for managing each risk and establish mechanisms to monitor the priority risks on a regular basis, including setting the frequency for monitoring. We suggest that the organization report quarterly on all prioritized risks and progress made on the risk treatment strategies.

This step in the process is to create a Risk Management plan for only the prioritized risks. These are typically the risks which were scored Orange and Red. To ensure that these risks are actively managed according to Chief and Council's direction, each risk will have a Risk Treatment Strategy assigned to it, and one or more activities which manage the risk consistent with that strategy. Risk Management Plans therefore include the associated actions, activities, projects, and programs to reduce the exposure to and the impact of the critical risks of the organization.

Figure 4—Risk Treatment Strategies

Risk Treatment Strategies

1. **Risk Avoidance** (you make changes to avoid the risk either partially or entirely), examples of which include:
   - Stop the activity or avoid the event; and
   - Outsource activity or event.
2. **Risk Mitigation or Reduction** (you put in place new activities to reduce the likelihood of the event happening), examples of which include:
   - New policies, procedures and controls;
   - Audits of activity; and

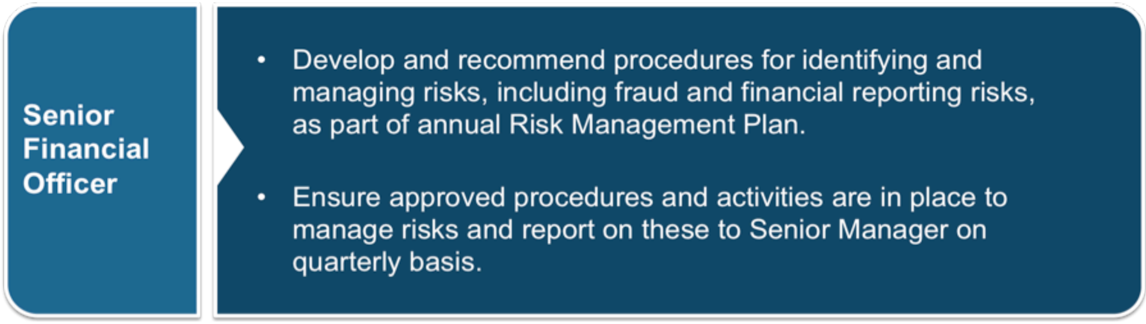
- New action plans.

3. **Risk Transfer or Sharing** (someone else takes on your risk) examples of which include:
   - Insurance;
   - Partnerships or joint ventures; and
   - Other contracts with third parties.
4. **Risk Acceptance** (when no action is required, but the fact that no action is required is signed off by leadership).

WHO DOES WHAT?

Different levels within the organization will be responsible for different elements of the risk management process:

Figure 5—Risk Management Roles and Responsibilities



WHY IS RISK MANAGEMENT IMPORTANT?

Risk Management is important because the First Nation has an improved conversation about its strategic priorities and the impacts of achieving, or not achieving these priorities. Risk Management also develops a shared understanding within your organization on how resources will be prioritized to achieve your desired goals, through the departmental plans.

Figure 6—Benefits of Risk Management

The value of Risk Management is different in different parts of your organization. Risk Management allows Chief and Council to focus discussions on the critical risks facing the organization. With risks prioritized, Chief and Council can decide on how to manage and apply appropriate resources to the identified risks. A structured Risk Management process gives Senior Management and the broader organization a roadmap for implementing the First Nation's strategic priorities that includes managing those events that could prevent the achievement of these priorities.

HOW DOES RISK ALIGN WITH FMB STANDARDS?

This guide has been designed to assist you in our FMS Certification process. Risk Management is an important part of our standards, specifically Standard 19 in our FMS Standards (B2) which require that a First Nation consider, as part of their risk management process, the risks associated with fraud, financial reporting, for-profit business activities, investments, insurance, loans, guarantees and indemnities, emergencies, and technology.

COSO

COSO, or the Committee of Sponsoring Organizations, provides leadership in internal controls, frameworks and guidance on Enterprise Risk Management (ERM).

It is important for organizations to follow best practices and this guide uses this framework.

This guide has been built on best practices for Risk Management using COSO. COSO is a leading principles-based guide for ERM. COSO defines essential Risk Management components, principles and concepts, suggests a common language and provides guidance on how to execute on ERM. The FMB's FMS Standards are aligned with COSO.

This guide uses a framework that ensures best practices are being considered in your Risk Management process and it is linked to the risk assessment associated with your shared vision of the future for your First Nation.

The **Risk Management** section within our sample **Finance Policy** sets out how risk could be managed within your organization.

FMB SUPPORT

We are happy to help you use this guide and would welcome the opportunity to discuss its contents and how it relates to your First Nation.

We will provide regular workshops for First Nations seeking FMS Certification that will provide training and give you the ability to share knowledge and experiences on Risk Management. This will enable Chief and Council and the administration to better understand risk, have the skills and capacity to identify new risks, and ultimately improve your organization's risk awareness so that you will be able to see potential issues and manage them before they create or become a risk.

The tools available align directly to this guide and are found within the ***Risk Management toolkit*** which includes a framework for creating Risk Statements, a Risk Register, Risk Management Plan and a Risk Dashboard.

ACKNOWLEDGEMENTS

Thank you to the following First Nations who participated in the creation of this guide. They were selected to participate because they reflect the diversity of First Nations across Canada:

- **Fisher River**, 193 km north of Winnipeg, Manitoba.
  Approximately 3,849 members (1,938 on-reserve);
- **Kwadacha First Nation**, 570 km north of Prince George, BC.
  Approximately 560 members (291 on-reserve);
- **Metlakatla First Nation**, No year-round road access, nearest centre—Prince Rupert, BC.
  Approximately 897 members (85 on-reserve);
- **Nipissing First Nation**, Nipissing, Ontario.
  Approximately 2,672 members (956 on-reserve);
- **Penticton Indian Band**, traditional name Snpinktn, Penticton, BC. Approximately 1,058 members (565 on-reserve); and
- **Tzeachten First Nation**, Chillwack, BC.
  Approximately 522 members (239 on-reserve).

CLIENT TESTIMONIALS

Nicole Gutowski, Director of Finance, Metlakatla First Nation
"*Metlakatla was already talking about risk but formalizing the process into a risk register and Risk Management Plan has helped members gain awareness and support Chief and Council's decisions, specifically in relation to resource allocation.*"

Lori Falys, Finance Director, Tzeachten First Nation
"*The risk management process was an eye opener for Tzeachten in that many of us were defining risk as financial risk. We learned that risk comes in all different shapes and sizes such as risk to our reputation. Through this process, we really redefined what risk meant to Tzeachten. At the top of our Risk Dashboard are risks that are important to our members and primarily the risk of not providing services*."

Chief Maureen Thomas, Tsleil-Waututh
"*Being aware of risks allows Tsleil-Waututh to be ahead of the game instead of reacting at the moment*."