ENTERPRISE RISK MANAGEMENT FRAMEWORK

COVENANT HEALTH
RISK MANAGEMENT
SEPTEMBER 1, 2019
1.0 INTRODUCTION
Covenant Health is committed to developing and promoting a culture of active risk management supported by transparent and robust governance oversight. The Board of Director’s (Board) policy requires an effective Enterprise Risk Management (ERM) program that supports and advances Covenant Health’s mission, vision and values. Therefore, this ERM Framework has been created to fulfill the Board’s requirements, achieve our strategic objectives and assist in fulfilling our mission while being guided by our values.

2.0 CONTEXT
In 2009 the International Organization for Standardization (ISO) published a worldwide standard, 31000, on the implementation of risk management. ISO 31000 is periodically updated with the latest version released in 2018.

Continuing with Covenant Health’s vision to be leaders and partners in transforming health care and creating vibrant communities of health and healing, Covenant Health has implemented an ERM Framework utilizing the ISO 31000:2018 standards.

3.0 WHAT IS AN ENTERPRISE RISK MANAGEMENT FRAMEWORK
Risks are the effect of uncertainty on Covenant Health’s objectives, which could be positive or negative. Covenant Health categories risks as follows:
- Strategic risks – risks that may be affected or created by Covenant Health’s mission and strategic objectives, also known as the strategic plan.
- Operational risks – risks that may be affected by Covenant Health’s ability to execute the strategic plan.

Risk Management means coordinated activities to direct and control Covenant Health with regards to risk. Enterprise Risk Management provides a consistent and systematic approach for the Board, leadership teams, management, employees and all representatives acting on behalf of Covenant Health to manage risks and maximize opportunities related to the achievement of our strategic plan.

Covenant Health’s ERM Framework outlines our approach to effectively and efficiently perform enterprise risk management. Figure 1 illustrates the components required for an effective Framework.
4.0 WHY HAVE AN ENTERPRISE RISK MANAGEMENT FRAMEWORK

The ERM Framework has been established to create and protect the value of service delivery by managing risks, encouraging innovation, making decisions, setting and achieving the Covenant Health’s strategic objectives and improving performance. In addition, it is an expectation of our Board. Figure 2 provides an overview of the principles required for effective risk management.

This ERM Framework does not replace any traditional risk management processes currently in place, rather it facilitates integration to make risk management more effective. It will enhance decision making processes already in place and provide prioritization of resources, but does not require additional resources to execute. The following provides an overview of the principles required to effectively manage risk:

<table>
<thead>
<tr>
<th>PRINCIPLES</th>
<th>REQUIREMENTS</th>
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<tbody>
<tr>
<td>Integrated</td>
<td>Risk Management is an internal part of all organizational activities.</td>
</tr>
<tr>
<td>Structured and comprehensive</td>
<td>A structured and comprehensive approach to risk management contributes to consistent and comparable results.</td>
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<tr>
<td>Customized</td>
<td>The ERM Framework and process are customized and proportionate to Covenant Health’s external and internal environment related to our objectives.</td>
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<tr>
<td>Inclusive</td>
<td>Appropriate and timely involvement of stakeholders enables their knowledge, views, and perceptions to be considered. This results in improved awareness, informed risk management, appropriate decision making and achievement of our objectives.</td>
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<tr>
<td>Dynamic</td>
<td>Risks can emerge, change, or disappear as an organization’s external and internal environment changes. Risk management anticipates, detects, acknowledges, and responds to those changes and events in an appropriate and timely manner.</td>
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<tr>
<td>Best available information</td>
<td>The inputs to risk management are based on historical and current information, as well as on future expectations. Risk management explicitly takes into account any limitations and uncertainties associated with such information and expectations. Information should be timely, clear, reliable and available to relevant stakeholders.</td>
</tr>
<tr>
<td>Human and cultural factors</td>
<td>Human behavior and culture significantly influence all aspects of risk management at each level and stage. The Board and Leadership Team provide the overall tone from the top to express the importance of risk management throughout the organization.</td>
</tr>
<tr>
<td>Continual improvement</td>
<td>Risk Management is continually improved through learning and experience.</td>
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5.0 THE ENTERPRISE RISK MANAGEMENT PROCESS

Whether a risk is strategic, operational, departmental, site specific, or at the project level, the ERM process can be scalable for broad use. The ERM process should be an integral part of leadership and decision making and integrated into the structure, operations and processes at Covenant Health. Using the ERM process shown in Figure 3 below helps assess risk specific to your objectives as well as providing inputs and information into the strategic risks.

An ERM Process Guide has been created and is paired with decision processes, risk assessment tools to make proactively managing risk a part of everyday business. Decision making processes will vary depending on how it is framed.

![ERM Process Diagram](image-url)
6.0 GOVERNANCE STRUCTURE AND ACCOUNTABILITIES

“Everyone is a Risk Manager” and plays a role in ensuring risks are identified, analyzed, evaluated, treated and monitored. The Covenant Health ERM Governance Structure is designed for a top-down direction with bottom-up feedback loop; this is how everyone plays a role in managing risk.

6.1 RISK GOVERNORS

- **Board and Sub-Board Committees**: The Board and its Sub-Board Committees are responsible for overseeing ERM strategies, advising the risk tolerance, and monitoring the effectiveness of risk management strategies. A Board ERM Policy establishes this ERM Framework and sets out the Board’s roles and responsibilities.

- **Audit and Finance Committee (AFC)**: AFC assists the Board in fulfilling its fiduciary responsibility for stewardship of the organization’s resources. AFC is responsible for providing oversight, and where appropriate, making recommendations to the Board on the ERM Policy and ERM Framework. In addition, AFC is responsible for reviewing major risk exposures and the steps management has taken to monitor and control such exposures, including risk assessment and organizational risk management policies. The AFC Terms of Reference include the expectations for enterprise risk reporting within the organization.

- **Chief Executive Officer (CEO)**: The CEO, with assistance from the Corporate Director, Risk Management, will establish a strong relationship with and is accountable to AFC for the ERM Program. An Organizational ERM Policy establishes the importance of ERM and sets out the roles and responsibilities of the organization. The CEO has a responsibility to ensure enterprise risks are being managed and report the major risk exposures to AFC, which may be delegated to the Corporate Director, Risk Management.

6.2 RISK OWNERS

- **Executive Leadership Team (ELT)**: ELT is responsible for setting the strategic plan, identifying the risks of achieving the strategic plan and overseeing the strategic risk management.

- **Senior Leadership Team (SLT)**: SLT is responsible for managing the strategic risks within their business units as Risk Owners. In addition, SLT is responsible for overseeing the operational risks and ensuring appropriate risk management activities are being used within their business units. SLT is required to report on strategic risks and significant operational risks to ELT and the Risk Management department.

6.3 RISK LEADS

- **Operational Leadership Team and Covenant Family Leadership Team**: You have the responsibility to identify, assess, treat and monitor risks that affect your day to day and project based business or clinical activities. They are responsible to ensure compliance with policies, processes, procedures, laws and regulations within their business units.

- **Enterprise Risk Committee (ERC)**: Leaders representing all major aspects of the Covenant Health organization have formed the ERC. ERC will work collaboratively to review, revise, provide input and make recommendations regarding strategic and operational risks, ERM processes, tools, risk assessments and templates.

6.4 RISK MANAGERS

- All employees, physicians, volunteers, and representatives acting on behalf of Covenant Health (including contracted service providers) are responsible for identifying and communicating actual or potential risks, as it relates to their role, and participating in risk
management strategies aligning with the ERM Policy and the Leadership Teams directions.

- All employees are still required to fulfill their job related risk and hazard assessments, management and reporting. Employees must make supervisors and managers aware of risks that they cannot manage on their own. If risks have the potential to impact overall operations and strategic objectives it must be reported to the Risk Advisors.

6.5 RISK ADVISORS

- **Risk Management Department**: The Corporate Director, Risk Management leads the Risk Management department, which has administrative responsibility for the ERM Program, reports to the CEO and AFC on enterprise risks. The Risk Management department is responsible for the risk management guidance, education, advice and facilitation of risk assessments for the Risk Governors, Leaders, Owners and Managers. The Risk Management department is the risk reporting function for the organization and responsible for administering the risk register with information provided by the Risk Owners.

ERM does not require additional resources, rather it should assist in prioritizing the utilization of existing resources to manage risks effectively. It will be utilized for all decision making performed in the organization.

Risks can be complex and may not have a linear solution. The ERM process can require the participation and support at multiple levels within our organization. However, solutions can be found and risks can be managed at any level. Risk Advisors are available to provide guidance and support.

Figure 4 provides an overview of the ERM governance structure and associated accountabilities:
FIGURE 4 – GOVERNANCE STRUCTURE AND ACCOUNTABILITIES

**Governance Structure and Accountabilities**

- **Risk Advisors**
  - Corporate Director, Risk Management
  - Risk Management
  - *Other Subject Matter Experts (as required)*
  - Champion and coordinate the ERM Program
  - Design, develop & maintain the ERM policy, Framework and supporting processes and tools
  - Provide ERM education, guidance and advice
  - Facilitate strategic risk assessments with the Risk Owners and provide reporting to the CEO & AFC
  - Work with the Board and Sub-Board Committees on risk management activities
  - Chair the Enterprise Risk Committee
  - Provide guidance and advice on operational risks

- **Risk Governors**
  - Board
  - AFC
  - CEO
  - Sets the strategic direction and ensure risks are adequately considered
  - Sets the tone for a risk aware and just culture
  - Sets the ERM policy, Framework and advises on risk tolerance
  - Review and monitor major risk exposures and the steps management has taken to monitor and control such exposures
  - CEO has oversight over the ERM program and reporting responsibility to AFC

- **Risk Owners**
  - Corporate Director, Risk Management
  - Executive Leadership Team
  - Senior Leadership Team
  - Identify, assess and manage strategic risks
  - Oversee operational risks and the steps the Risk Leads have taken to monitor and control such risks
  - Promote the importance of risk management
  - Participate in risk management consultations
  - Ensure that systems to manage risks are appropriate in context of our strategic objectives

- **Risk Leads**
  - Operational Leadership Team
  - Covenant Family Leadership Team
  - Enterprise Risk Committee
  - Identify, assess and manage operational risks that they are responsible for
  - Regular risk reporting & discussion with the Risk Owner & Advisors (Enterprise Risk Committee)
  - Incorporate ERM process into management systems
  - Promote the importance of risk management

- **Risk Managers**
  - All Employees
  - Volunteers
  - Physicians
  - All representatives acting on our behalf
  - Complete ERM education, support a risk aware and just culture and be familiar with the strategic & operational risks
  - Manage risks in day to day operations with respect to your role & participate in risk management consultations
  - Escalate identified risk with real or potential significance objectives to the Risk Leads
  - Comply with all policies, procedures and processes
7.0 ASSURANCE STRATEGY
Covenant Health has three lines of defense to efficiently and effectively achieve its’ strategic objectives and fulfill our mission. The ERM program is crucial to the overall assurance strategy, see figure 5 below. This provides assurance on the control environment, strategic and operational risks.

FIGURE 5 – THREE LINES OF DEFENSE

8.0 RECORDING AND REPORTING
Recording and reporting of risks supports all steps of the ERM processes and assist the organization in effectively and efficiently managing risks to an acceptable level. Reporting is the mechanism by which the risks that are identified, assessed, monitored and reviewed, communicated and consulted are recorded, discussed and reviewed. It supports risk oversight, decision making and sharing of important risk
information across the organization.

- **Strategic Risks**: The Risk Management department facilitates the recording and reporting of the strategic risks with the Risk Owners through a Strategic Risk Register. Covenant Health has identified Key Risk Indicators (KRIs) to monitor any change in the risk exposure, contribute to early warning signs that allow the organization to implement additional risk mitigation strategies to change the outcomes and achieve the strategic objectives. At minimum, the Strategic Risk Register is formally reported annually to the CEO and AFC. AFC is responsible for providing oversight, and where appropriate, making recommendations to the Board on the ERM Program and major risk exposures.

- **Operational Risks**: Risk Leads and Risk Managers perform risk assessments as a part of their job duties. These risks should be recorded utilizing the ERM process and tools, reported and managed based on the organizational structure already in place at Covenant Health. If an operational risk is complex, integrated and/or cannot be mitigated to an acceptable level, the Risk Management department is engaged to assist with recording and reporting the individual risk assessment. Risk Leads and Risk Managers are to collaborate with their ERC members to provide information and reporting on significant operational risks to the Committee so that it can be reviewed, discussed and reported across the organization. The ERC members are responsible for providing information back to their business units to continuously learn and improve on risk management processes.

- **Emerging Risks**: All employees are responsible for recording and reporting emerging risks. Strategic risks should be reported to the Risk Management department and Risk Owners for a review to occur to determine the impact on the strategic plan. The Corporate Director, Risk Management discusses strategic emerging risks with the CEO, as required. Operational risks should be reported based on existing organizational structure respecting the principle of subsidiarity. If the operational risk is significant, consult with the Risk Management department. ERC members report monthly on emerging operational risks that the organization should be aware of, whether it has been mitigated or they require assistance in mitigation.

The above recording and reporting allows for communication and consultation to occur throughout the organization, depending on the risk. This is how Covenant Health ensures that the ERM process is integrated and liaisons with internal subject matter experts throughout the organization (e.g. Quality, Occupational Health, Safety & Wellness, Privacy, etc.). In addition, it ensures that the risks are monitored and reviewed to ensure an effective and efficient ERM Program is in place at Covenant Health.

**Did you know?**

Covenant Health supports a **Just Culture** approach to the reporting, response to, and management of adverse events, close calls and hazards. Healthcare providers and staff are to feel supported, safe and comfortable in sharing event details for the purpose of wider learning and system improvement. This is an example of how Covenant Health is ensuring value creation and protection.

### 9.0 MONITOR, REVIEW AND CONTINUOUS IMPROVEMENT

Risk Management is a developing field and it is key that the Covenant Health ERM Program evolve as there are updates in the worldwide standards and organizations develop best practices. Establishing a risk management network to discuss and keep up to date on the best practices is important for Covenant Health to be leaders and partners in transforming health care.

The maturity and continuous improvement objectives for Covenant Health are:

- Continue to create a risk aware and just culture through tone from the top and education
- Develop an annual risk management plan that is approved by the Risk Governors
• Implement a structured emerging risks process
• Enhance the strategic risk reporting that includes the key risk indicators
• Continue to facilitate complex operational risks

The overall ERM process will be subject to regular monitoring and review to deliver assurance that it remains appropriate and effective. Review of risks and review of the ERM process are distinct from each other and neither is a substitute for the other. This should include:

• Review the ERM policy, Framework and supporting documents every three years, or as appropriate, to validate that the ERM processes continue to meet the needs of the organization
• Measure the ERM Framework performance against its purpose, implementation plans, indicators and expected behavior
• Determine whether the ERM Framework remains suitable to support the achievement of Covenant Health’s objectives
• Assess the continuous improvement objectives to ensure they are feasible and consistent with Covenant Health’s strategic plan

The maturity and continuous improvement of the ERM program will be monitored by performance measures that consider:

• ISO 31000: Risk Management - Guidelines;
• Accreditation Canada Governance and Leadership Standards, as they apply to ERM; and
• Principles set out in this ERM Framework

10.0  TRAINING AND AWARENESS
The Risk Management department provides training and awareness to all Covenant Health stakeholders on an on-going basis through both formal and informal mechanisms. The Risk Management department is available to assist your site, department, program, or project in learning to use and incorporate appropriate risk management practices that align with this ERM Framework.

Did you know?
The Risk Management department’s role is to promote and facilitate a consistent, standardized ERM process and tools for the management and governance of risks. They also encourage the adoption of leading practice and provide support and guidance to help improve the ERM maturity across the organization.

For more information on implementing the concepts outlined in this Framework, please contact the Risk Management department at Cov.RiskManagement@covenanthealth.ca

11.0  CONCLUSION
This document presents a summary of Covenant Health’s philosophy on the management of risk, governance structure and accountability and provides a brief overview of ERM processes. Covenant Health will take an integrative point of view on the management of risk, and use tools and processes available to it in various situations including quantitative tools and qualitative assessments. Risk Management is designed in a continuous feedback and improvement loop. The undertaking of ERM procedures often leads to the identification of previously unidentified sources of risk. For this reason, this document is expected to be a living document, and will be continually updated as Covenant Health updates its ERM systems, processes and objectives.
12.0 GLOSSARY
The following provide definitions of key risk management concepts:

a) Risk - the effect (positive, negative or both) of uncertainty on objectives.
b) Strategic Risk – a risk that affects or is created by Covenant Health’s mission and the Covenant Family’s strategic objectives.
c) Operational Risk – major risks that affect Covenant Health’s ability to execute the Covenant Family’s Strategic Plan.
d) Enterprise Risk – strategic and operational risks

e) Risk Management - coordinated activities to direct and control an organization with regard to risk

f) Enterprise Risk Management – the organizational risk management of strategic and operational risks, which are known as enterprise risks

g) Enterprise Risk Management Framework – set of components that provide the foundation, governance and accountabilities for designing, implementing, evaluating, improving and integrating risk management across the organization

h) Control – a measure that maintains and/or modifies the risk. Controls include, but are not limited to, any process, policy, device, practice, or other conditions and/or actions which maintain and/or modify risk.