

Risk Management Policy

Policy

Nipissing First Nation will identify, manage, and monitor risks related to the financial management system and the achievement of its goals.

Purpose

The purpose of this policy is to provide guidance on risk management as part of the integrated planning process and ongoing governance activities of Nipissing First Nation, including risk assessments, mitigation plans, and specific business activities that are separately evaluated, managed and monitored.

Scope

This policy and procedure applies to Council, the Finance and Audit Committee, the Chief Executive Officer, the Chief Financial Officer, and all other employees involved in risk management at Nipissing First Nation.

Definitions

“risk” is defined as anything of variable uncertainty and significance that interferes with the achievement of Nipissing First Nation’s strategies and objectives.

“risk tolerance” means the degree of uncertainty Nipissing First Nation is willing to accept in the achievement of its goals.

“fraudulent financial reporting” means an intentional act in financial reporting that is designed to deceive users of financial reports and that may result in a material omission from or misstatement of financial reports.

“fraudulent non-financial reporting” means the intentional act in non-financial reporting that is designed to deceive users of non-financial reports.

“misappropriation of assets” means the theft of Nipissing First Nation assets in circumstances where the theft may result in a material omission or misstatement in financial reports.

Responsibilities

Council is responsible for:

- a) Providing input to the annual risk assessment, including consideration of fraud risks;
- b) Reviewing and approving the annual Nipissing First Nation Risk Management Plan (Appendix “”) and fraud risk assessment;
- c) Subject to the Financial Administration Law, approving:
 - i. For-profit business activities and ventures;

- ii. The investment strategy and investment risk assessment;
- iii. Loans, guarantees or indemnities;
- iv. Insurance coverage; and
- v. Emergency plan.

The Finance and Audit Committee is responsible for:

- a) Providing input to the annual risk assessment including consideration of fraud risks;
- b) Reviewing the risks management plan and risk assessment on a regular basis to ensure risks are adequate identified and monitored.

The Chief Executive Officer is responsible for:

- a) Managing the annual risk assessment process and preparing the Risk Management Plan;
- b) Managing the annual fraud risk assessment process and preparing the fraud risk assessment;
- c) Identifying and assessing risks associated with specific material business activities, loans, guarantees, indemnities, investments, general operations, financial reporting and fraud risks;
- d) Preparing risks associated with proposed for-profit business activity, steps taken to limit the risks, approvals required to undertake for-profit activity and monitoring of any approved for-profit activity.
- e) Reviewing and updating the Risk Management Plan and fraud risk assessment on a regular basis;
- f) Immediately reporting any significant changes to the Risk Management Plan and fraud risk assessment to the Finance and Audit Committee;
- g) Preparing a documentation that assesses qualification of individuals engaged in control activities in the Nipissing First Nation's financial management systems that they understand their responsibilities.

The Chief Financial Officer is responsible for:

- a) Ensuring all for-profit business activities are separately reported in the monthly, quarterly and annual financial statements and management reports;
- b) Developing and recommending procedures for identifying and mitigating risks for the annual Risk Management Plan;
- c) Developing and recommending procedures for identifying and mitigating financial reporting risks and fraud risks;

- d) Reviewing and recommending approval for loan, guarantee or indemnity requests;
- e) Preparation of the Nipissing First Nation investment strategy, insurance coverage and emergency plans; and
- f) Monitoring the control activities and its impact on the Nipissing First Nation and the Risk Management Plan.

PROCEDURES

Annual Risk Management Plan

1. On an annual basis as part of the integrated planning process, a risk assessment will be performed by the Chief Executive Officer. Risks identified will include any risks that could impact the Nipissing First Nation's achievement of its strategic goals or its operations in general.
2. Risks will be recorded in the Nipissing First Nation's Risk Management Plan (see Risk Management Plan template in Appendix "R"). The management team will analyze the potential impact and likelihood of each risk identified and develop an appropriate risk mitigation plan.
3. The risk management plan must ensure that risks related to specific business activities, loans, guarantees, indemnities, investments, general operations and financial reporting risks are separately addressed, managed and monitored.
4. Responsibility for each risk and corresponding risk mitigation plan will be assigned to a Nipissing First Nation staff member.
 - a) The Risk Management Plan will be presented to the Finance and Audit Committee for review and recommendation to council for approval on an annual basis (during the integrated planning review).
 - b) On a quarterly basis, the Chief Executive Officer will review the Risk Management Plan with the risk owners to update or adjust as required the risks or mitigation plans. Any significant changes will be reported to and reviewed by the Finance and Audit Committee and reported to the Council.

Fraud Risk Assessment

1. On an annual basis as part of the integrated planning process, a fraud risk assessment will be performed by the Chief Executive Officer. (Refer to guideline document in Appendix "P" and the Fraud Risk Assessment template example in Appendix Q)

Fraud risk assessment will include identification and assessment of following types of fraud in Nipissing First Nation:

- i. Fraudulent financial reporting;
- ii. Fraudulent non-financial reporting;
- iii. Misappropriation of assets; and
- iv. Corruption and illegal acts.

Fraud risk assessment will include identification of risks arising from the following:

- i. Incentives and rewards associated with achievement of objectives; and
- ii. Pressures associated with achievement of objectives.

Fraud risk assessment will also include identification of opportunities for fraud created by the following:

Ineffective design and monitoring control activities as it relates to the following:

- i. Unauthorized acquisition, use of disposal of Nipissing First Nation assets;
- ii. Poor management oversight;
- iii. Management override of internal control; and
- iv. Ineffective technology systems.

Willful violation of laws that could have a material direct or indirect impact on financial reporting.

Fraud risk assessment will also identify the risk of fraud resulting from attitudes of and rationalizations by individuals justifying inappropriate actions.

Fraud risks assessment will include various ways that fraudulent reporting can occur taking into account the following:

- i. Management bias;
- ii. The degree of estimates and judgements used in financial reporting;
- iii. Possible fraud schemes and scenarios in first nation communities;
- iv. The geographic region where first nation lands are located;
- v. The nature of technology and management's ability to manipulate information using that technology;
- vi. Any unusual or complex transactions which are subject to significant management influence; and
- vii. The vulnerability of internal controls to management override and potential schemes to circumvent existing control activities.

2. On an annual basis, the Chief Executive Officer will prepare a documentation that assesses the qualification of individuals engaged in fraud risk control activities in the first nation's financial management system.

3. On a periodic basis, the individuals involved in the fraud risk controls must confirm in writing that they understand their responsibilities.

For-profit business activity risk management considerations

Prior to beginning any for-profit business activity, the Chief Executive Officer will lead the preparation of a business case supporting the activity. The business case should contain, at a minimum, a detailed description of the proposed activity, costs, projected revenues and benefits, funding arrangements, strategic impact, and a risk assessment (including whether the activity will result in a material liability of Nipissing First Nations financial assets, property or resources to significant risk).

The risk assessment should address all risks related to the project and the resulting overall impacts on Nipissing First Nation.

For each risk, a detailed mitigation plan with assigned responsibility will be developed.

The complete business case and risk assessment will be presented to the Finance and Audit Committee for review and recommendation to Council for approval of the activity via a Council Resolution.

The Chief Executive Officer, or designate, will be responsible for ongoing monitoring of the for-profit business activity. Deviations from the approved business plan will be presented to the Finance and Audit Committee for review and recommendation to Council.

The Chief Executive Officer, or designate must report on the for-profit business activity separately reported in the monthly reports and quarterly, and annual financial statements.

Loans, guarantees and indemnities

For any loans, guarantees or indemnities, the Chief Financial Officer must annually document his or her evaluation of the risks to Nipissing First Nation of extending credit to the requesting individual/group. Risks which should be considered include, but are not limited to, the following:

- Ability of individuals or groups to repay Nipissing First Nation;
- Potential for negative impact on Nipissing First Nation's reputation;
- Extent of other similar situations / agreements Nipissing First Nation has entered into;
- Ability of Nipissing First Nation to honour the guarantee or indemnity should it be required to do so;
- In the case of a program for lending to members of Nipissing First Nation, the risks associated with the program and the costs of administering the program;
- Approval and management of loans, guarantees and indemnities is detailed in the Loans, Guarantees and Indemnities Policy.

Investment Risk Assessment

Monitoring, reporting and approval of investments strategy and performance is detailed in the Investment Policy.

Financial Reporting Risks

Nipissing First Nation will follow the documented procedures in the Financial and Operational Reporting Policy to identify and mitigate the risk of a material misstatement in the quarterly and annual financial statements.

Insurance and Emergency Plans

Separate policies have been developed to provide guidance on risk assessment and management of investments, insurance and emergency planning. Refer to Investments Policy, Insurance Policy and Emergencies Policy.

Appendix “P” – Risk Assessment Guidelines

This document provides examples and considerations for Nipissing First Nation with respect to the risk of fraud and antifraud programs and controls and is written in the context of the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission’s Internal Control – Integrated Framework.

Below are the five components derived from COSO’s 2013 Internal Control – Integrated Framework that Nipissing First Nation may consider with respect to their responsibilities for designing and evaluating antifraud programs and controls.

1. Performing Fraud Risk Assessments
2. Creating Control Environment
3. Designing and Implementing Antifraud Control Activities
4. Sharing Information and Communication
5. Monitoring Activities

1. Performing Fraud Risk Assessments

Fraud risk assessments are designed to identify and evaluate fraud risk factors that could enable fraud to occur within Nipissing First Nation. Every organization has inherent fraud risks that arise from internal and external conditions relative to Nipissing First Nation’s operations, geographical location, size, organizational structure and general economic conditions.

Fraud risk assessments are more than a process to identify risks of theft and should also address other frauds, including fraudulent financial reporting, misappropriation of assets and corruption and illegal acts. The fraud risk assessment involves an expanded focus on considerations of where fraud risk factors may exist within the entity and the potential fraud schemes that could be perpetrated.

Risk Assessment Team

A good risk assessment requires input from various sources. The Chief Executive Officer has the primary responsibility for performing fraud risk assessments. Ideally, the Chief Executive Officer should identify a risk assessment team to conduct the risk assessment. Individuals from throughout the First Nation’s financial management systems with different knowledge, skills, and perspectives should be involved in the risk assessment. Such members of the risk assessment teams should include personnel such as:

- Chief Executive Officer and Chief Financial Officer;
- Finance Staff who are familiar with the financial reporting process and internal controls;

- Non-financial information technology personnel, to leverage their knowledge of day-to-day operations; and
- External legal or accounting advisors.

The Finance and Audit Committee should have an active role in the oversight of process, understand identified fraud risks, and evaluate Nipissing First Nation's implementation of antifraud measures. The Finance and Audit Committee, together with Chief Executive Officer and the risk assessment team, should also consider the potential risk of management's override of controls or other inappropriate influence over the financial reporting process.

Questions to Consider

There is no one standard method by which the First Nation may evaluate and implement its fraud risk assessment. The following is a list of some of the questions management to consider when completing Fraud Risk Assessment template.

- Are there events or conditions that indicate an incentive or pressure to commit fraud? These incentives, rewards and pressures are associated with achievement of objectives.
- Are there circumstances that allow employees and councillors to commit fraud? These opportunities are greatest in areas with weak internal controls and a lack of segregation of duties.
- Are there opportunities for unauthorized acquisition, use or disposal of assets, altering Nipissing First Nation's reporting records or committing other inappropriate acts?
- Are there indications of an attitude, character or set of ethical values that allow employees or councillors to commit fraud?
- Has there been past allegations of fraud or fraud within the associated membership, partnership or in Nipissing First Nation?
- Are there unusual financial trends or relationships identified in the past and potential role of weak information technology controls that could play in enabling fraudulent activity to occur?
- Are there controls that mitigate the risk of management and council's override of controls? Does the fraud risk assessment include the vulnerability of internal controls to management override and potential schemes to circumvent existing control activities?
- What is the degree of estimates and judgement used in financial reporting that may result in fraudulent reporting?

- What is the nature of technology and management's ability to manipulate information?
- Are there unusual or complex transactions subject to significant management influence?
- Do the Finance and Audit Committee members have sufficient oversight of management's antifraud programs and controls?
- Does Nipissing First Nation have a code of conduct with provisions related to conflicts of interests, related-party transactions, illegal acts and fraud, made available to all personnel? Do personnel have to confirm their individual compliance with this code of conduct on an annual basis?
- Does the chief and council have a proper tone at the top? Does the management assess the tone of the leadership of Nipissing First Nation to determine if the culture encourages ethical behaviour, consultation and open communication? This assessment can be made through anonymous surveys (ie: Third-party whistleblower service providers), inquiries, interviews or by external auditors during their annual financial statement audit engagements.
- Does Nipissing First Nation have a whistleblower policy with adequate procedures to handle anonymous complaints and accept confidential submission of concerns about questionable accounting, control and financial and non-financial matters?
- Does the management design and implement preventative and detective controls? Preventative controls are designed to stop fraud from occurring and detective controls are designed to identify the fraud if it occurs.
- Are fraud risk assessments updated periodically to include considerations of changes in operations, new information systems, changes in roles and responsibilities and revisions to identified fraud risks within Nipissing First Nation?
- Is information on ethics and management and council's commitment to antifraud programs and controls effectively communicated throughout Nipissing First Nation to all employees?
- Has management linked identified existing fraud risks to existing internal control and documented mitigating existing or new antifraud control activities related to the fraud risks?

2. Creating a Strong Control Environment

Emphasis should be placed on the Nipissing First Nation's control environment as it influences the tone of the entire organization. Control environment factors include the

integrity, ethical values, and competence of Nipissing First Nation's management and employees and have a pervasive effect on Nipissing First Nation's operations and governance structure.

The control environment should set the proper "tone at the top" which includes a culture and work environment that promotes open communication, consultation and ethical behaviour. It should:

- Create and maintain a culture of honesty, high ethical standards, and behaviour;
- Provide discipline for violations of the code of conduct / ethics;
- Set an appropriate tone for Nipissing First Nation's attitude towards fraud and fraud prevention; and
- Promote effective controls to prevent, deter and detect fraud.

All employees of Nipissing First Nation have a role in the control environment. Management, Councillors and Finance and Audit Committee members have the primary responsibility of creating the tone at the top. The Finance and Audit committee should take an active role in the oversight of management's efforts to design and implement internal controls, including antifraud programs and controls and should challenge management to ensure that fraud risks are identified and that appropriate control activities are implemented and monitored.

Designing and Implementing Antifraud Control Activities

After fraud risk assessments are performed, the Chief Executive Officer should address each identified fraud risk by determining whether control activities exist and mitigate the risks. Control activities are policies and procedures designed to address risks and help ensure the achievement of Nipissing First Nation's objectives.

Where control activities are not already present, the Chief Executive Officer should design and implement additional controls to specifically address the identified fraud risks.

Special consideration should be given to the risk of override of controls by management and council. Some antifraud programs and controls will include active oversight from the Finance and Audit Committee; whistleblower programs and system to receive and investigate anonymous complaints; reviewing financial reporting risks for evidence of possible material misstatements due to fraud.

Sharing Information and Communication

Effective communication is an important element to all phases of the implementation of antifraud programs and controls.

Nipissing First Nation's code of conduct or ethics is often the first line of communication concerning its philosophy on fraud prevention. Other communication methods should be used to create awareness of antifraud programs and controls. Examples would include Nipissing First Nation's newsletters, intranet sites, training and through presentations led by Council or management.

Monitoring Activities

The Chief Executive Officer and the Finance and Audit Committee should monitor the quality and effectiveness of antifraud programs and controls. Ongoing monitoring procedures should be built into operating activities. Examples include:

- Reconciliations of operating and financial reports;
- Regular communications with employees as well as external auditors; and
- Periodic planning and training sessions to identify fraud risks and assess implementation effectiveness of preventative and detective control activities.

Some monitoring activities can be automated in nature and as such may involve information technology systems. Effective anti-fraud programs are dynamic, where the information obtained through the monitoring process is fed back into the risk assessment and the entire process begins anew.

Appendix “Q” – Risk Assessment (Fraud)

The following Fraud Risk Assessment chart below does NOT list all possible fraud risks that Nipissing First Nation may have. Management and Council are encouraged to brainstorm and come up our own identification of risks by considering questions in Appendix “P”.

1. **Identified Fraud Risks and Schemes:** This column should include a full list of the potential fraud risks and schemes that may face Nipissing First Nation. This should be formed by discussions with employees, officers and councilors and brainstorming sessions.

See note ¹	See note ²	See note ³	See note ⁴	See note ⁵	See note ⁶	See note ⁷
Identified Fraud Risks and Schemes	Likelihood	Significance	People / Department	Existing Anti-Fraud Controls	Assessment of Anti-Fraud controls	Fraud Risk Response
Conflict of Interest – Contracts improperly awarded	Remote	Material	Accounting	Chief Executive Officer reviews and approves awarded contracts prior to payment.	Evidenced by council meeting minutes.	Risk of council override exists.
Recording of rent receipts in incorrect periods	Remote	Insignificant	Accounting	Monthly and Year-end reconciliation of the rent revenue and receivables	Risk of override still exists	No further action, receipts are minimal.
Unauthorized payroll adjustments	Reasonably Possible	Material	Payroll	Chief Financial Officer approves payroll batches and reviews one-time payment queries	Adequately mitigated by control	N/A
Cash Management	Reasonably Possible	Material	Accounting	Segregation of responsibilities with Finance staff (ie: EFT payment batches)	Adequately mitigated by control	N/A

2. **Likelihood of Occurrence:** To design an efficient fraud risk management program, it is important to assess the likelihood of the identified fraud risks so that Nipissing First Nation establishes proper anti-fraud controls for the risks that are deemed most likely. For purposes

of the assessment, it should be adequate to evaluate the likelihood of risks as remote, reasonably possible, and probable.

3. **Significance to Nipissing First Nation:** Quantitative and qualitative factors should be considered when assessing the significance of fraud risks to Nipissing First Nation. For example, certain fraud risks may only pose an immaterial direct financial risk to Nipissing First Nation, but could greatly impact its reputation, and therefore, would be deemed to be a more significant risk. For purposes of the assessment, it should be adequate to evaluate the significance of risks as immaterial, significant, and material.
4. **People and/or Department Subject to the Risk:** As fraud risks are identified and assessed, it is important to evaluate which people inside and outside Nipissing First Nation are subject to the risk. This knowledge will assist in tailoring its fraud risk response, including establishing appropriate segregation of duties, proper review and approval chains of authority, and proactive anti-fraud procedures.
5. **Existing Anti-fraud Internal Controls:** Map pre-existing controls to the relevant fraud risks identified. Note that this occurs after fraud risks are identified and assessed for likelihood and significance. By progressing in this order, this framework intends for Nipissing First Nation to assess identified fraud risks on an inherent basis, without consideration of internal controls.
6. **Assessment of Mitigating Controls:** Nipissing First Nation should evaluate whether the identified controls are operating and mitigating fraud risks as intended.
7. **Fraud Risk Response:** Residual risks should be evaluated by Nipissing First Nation and fraud risk responses should to address such remaining risk. The fraud risk response could be implementing additional controls.

Appendix “R” – Risk Management Plan

#	Identified Risks	Potential Impact	Likelihood	Significance	Mitigation / action plan	Individual responsible
<i>Risk category (i.e. For-profit business, loans, indemnities, investments, insurance and emergency)</i>						
1	<i>Provide a description of the risk and date identified</i>	<i>Provide estimates of the impact of the risk – quantitative/ qualitative as appropriate</i>	<i>An estimation of the likelihood, from remote, reasonably possible, and probable.</i>	<i>Significance of the potential impact identified as immaterial, significant, and material.</i>	<i>Specific steps to either reduce or eliminate the impact/likelihood of the risk</i>	<i>Name of who will implement and monitor the action plan</i>
2						
3						
<i>Risk Category (i.e. For-profit business, loans, indemnities, investments, insurance and emergency)</i>						
1						
2						
3						