Audits and Risk Management Committee

Enterprise Risk Management Framework

May 2024

Background

- The board has delegated oversight of the Enterprise Risk Management (ERM) framework to the Audits and Risk Management Committee.

- A documented ERM framework helps the Audits and Risk Management Committee meet its responsibilities for oversight of the ERM framework.

- The ERM framework builds upon the findings of the Enterprise Risk and Compliance maturity assessment presented to the Audits and Risk Management Committee in March 2023 and aligns with the 18-month maturity plan presented in November 2023.

Benefits of an ERM framework

- Improve risk awareness
- Enhance decision-making
- Integrate risk and compliance
- Strengthen accountability
- Facilitate continuous improvement

ERM framework components

The CalSTRS ERM Framework is based on the COSO integrated ERM framework that comprises five components. These components include:
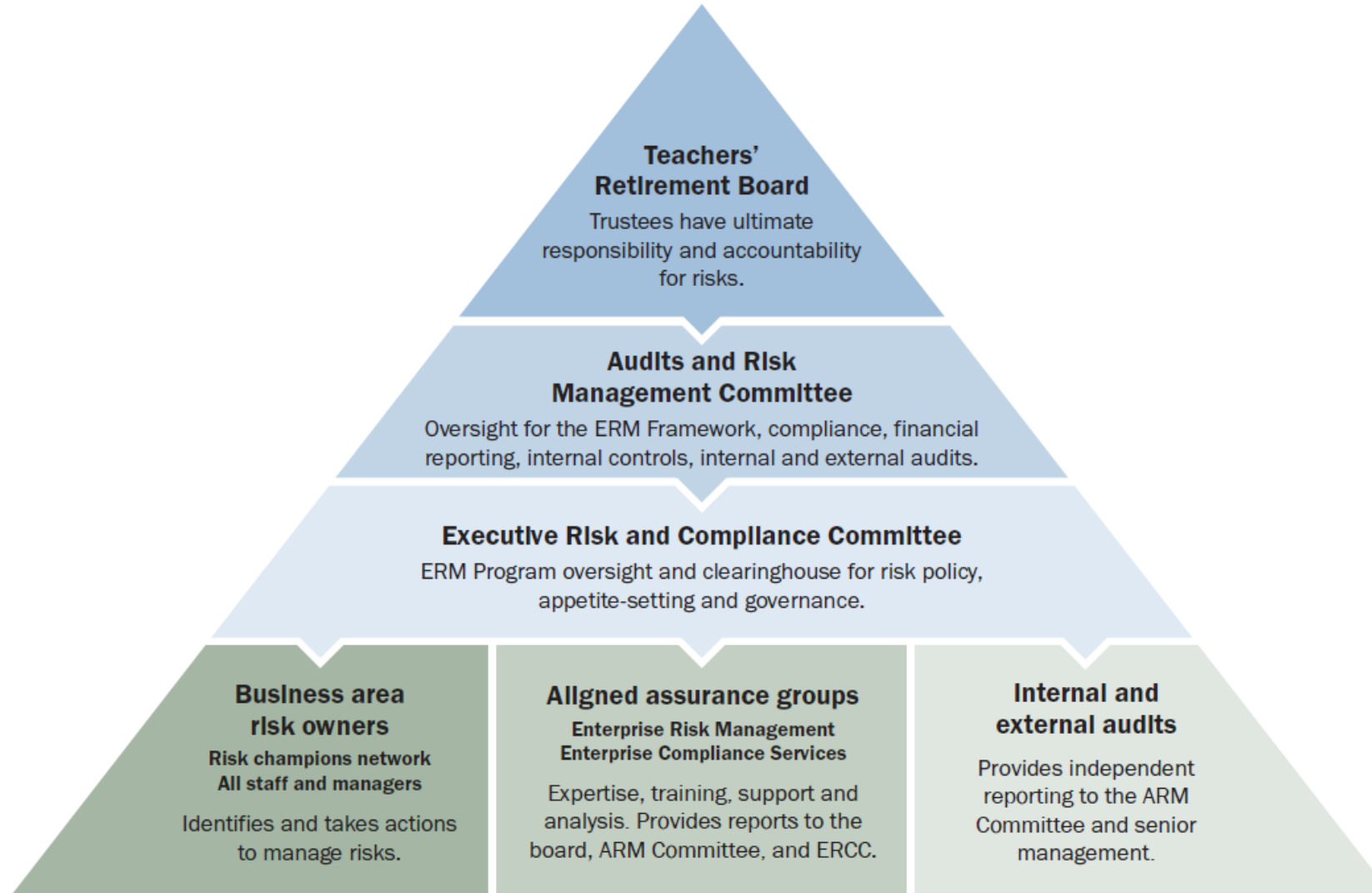
Governance, culture and ethics

Strategy and objective setting

Performance

Review and revision

Information, communication, and reporting

Summary of key groups that support the ERM Framework

Key Groups	Members	Risk Responsibilities
Board/Audits and Risk Management Committee	Trustees	Governance and oversight
Executive Risk and Compliance Committee	Executive team	Oversight, strategy and implementation
Aligned assurance groups	Enterprise Risk Management Enterprise Compliance Services	Risk and compliance training, support and reporting
Internal and external audits	Audit Services and External auditor	Independent reporting to the board and senior management
Risk Champions Network	Internal staff selected by branch executive	Identification and reporting of risks
Business area risk owners	Management and staff	Identification and management of risks

Updated framework graphic

CalSTRS Enterprise Risk Management Framework

Teachers' Retirement Board
Trustees have ultimate responsibility and accountability for risks.

Audits and Risk Management Committee
Oversight for the ERM Framework, compliance, financial reporting, internal controls, internal and external audits.

Executive Risk and Compliance Committee
ERM Program oversight and clearinghouse for risk policy, appetite-setting and governance.

Business area risk owners
Risk champions network
All staff and managers
Identifies and takes actions to manage risks.

Aligned assurance groups
Enterprise Risk Management Enterprise Compliance Services
Expertise, training, support and analysis. Provides reports to the board, ARM Committee, and ERCC.

Internal and external audits
Provides independent reporting to the ARM Committee and senior management.

Reporting to the board and ARM Committee

Reporting		
Meeting	**Schedule**	**Topics**
Teachers' Retirement Board	Regularly	• Emerging, existential and enterprise level risks that may impact strategic objectives.
Audits and Risk Management Committee	Regularly	• ERM Framework and ERM and ECS program charters. • Semi-annual risk scoring reports including heat map and emerging risk map. • Education on risk and compliance related topics. • ERM and ECS program workplans and progress updates. • Annual risk and compliance training and survey results. • Audit Services annual audit plan and results of audit reports. • Annual Compliance and Ethics hotline reporting. • External auditors report on the adequacy of the financial statements.

Key Changes

- Updating the ERM Framework graphic to better reflect our existing governance structure.

- Moving the semi-annual risk reporting, which currently includes the Risk Score Report, Heat Map, and Emerging Risk Universe Map from the full board to the Audits and Risk Management committee.

Next steps

- Our goal is to continually improve risk and compliance reporting to the board and the Audits and Risk Management committee as the ERM program continues to mature.

- This item is an Information item and staff intends to bring a subsequent Action item related to this framework at the September Audits and Risk Management Committee meeting. Staff however supports the Committee in approving this first reading, if so desired.