

## **Risk Management Policy**

### **1. Introduction**

- 1.1 Risk exists as a consequence of uncertainty and is present, to varying degrees, in all activities the Association undertakes.
- 1.2 Efficient and effective management of risk is a fundamental aspect of good corporate governance and good strategic management practices. Efficient and effective risk management is therefore an essential contribution towards the achievement of the Association's corporate strategic and operational objectives.
- 1.3 The efficient and effective management of risk increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving the Association's strategic and operational objectives.

### **2. Policy Statement**

- 2.1 Sound risk management principles will be integrated into the ethos and culture of the Association by way of the Association's Risk Management Framework.
- 2.2 Managing risks is a continuous process which will address methodically all the risks surrounding the Association's present activities and future activities – the Association's strategic and operational objectives.
- 2.3 The Risk Management Framework will translate the Association's tactical and operational approach to managing risks, assigning responsibility throughout the Association from the Management Committee (Governing Body) to the Chief Executive (Senior Risk Officer) through to Corporate Services Director (Deputy Senior Risk Officer) and Managers (Risk Owners) and staff. Assigning responsibility in this way will promote the risk management ethos and culture and ensure accountability at all levels.
- 2.4 Adopting efficient and effective risk management principles will ensure that the Association identifies, monitors, manages and has control mechanisms and mitigation strategies in place to manage risks in order to enable the Association to deliver its strategic and operational objectives.

### **3. Scottish Housing Regulator: Regulatory Framework**

- 3.1 The Scottish Housing Regulator's Regulatory Standards of Governance and Financial Management places an obligation on the governing body to manage risk.

- 3.2 Regulatory Standard 4 provides:

*The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose.*

- 3.3 The Guidance to Regulatory Standard 4 provides at 4.3:

*The governing body identifies risks that might prevent it from achieving the RSL's purpose and has effective strategies and systems for risk management and mitigation, internal control and audit.*

#### **4. Risk Management Framework**

The Association's Risk Management Framework consists of three important documents.

##### **4.1 Risk Management Policy**

The Risk Management Policy (this Policy) will define the principles which support the Risk Management Tables and the Risk Assurance Register. The Policy will be reviewed and approved by Management Committee periodically, in accordance with the policy monitoring and review.

##### **4.2 Risk Management Tables**

The Risk Management Tables will be updated and presented to Management Committee quarterly. The Risk Management Tables will be referenced in order to ease identification.

Corporate Governance – CG  
Finance – F  
Housing Services – HS  
Property Services – PS  
Human Resources – HR  
Information Technology – IT

##### **4.3 Risk Assurance Register**

The Risk Assurance Register will incorporate the 'three lines of defence' approach to risk management. The Risk Assurance Register will be updated and presented to Audit, Finance and Risk Management Committee quarterly and then to Management Committee. The Risk Assurance Register will be referenced to the Risk Management Tables using the references stipulated above.

##### **4.4 Risk Management Tables and Risk Assurance Register**

The Risk Management Tables and the Risk Assurance Register are designed to implement the Association's Policy on risk management, and address:

- Identifying Risks – the identification of risks will involve those with particular knowledge of the particular discipline.
- Monitoring Risks – will involve continuous monitoring and continuous reporting.
- Managing Risks – the management of risks will involve all staff.
- Controlling Risks – will involve suitable and sufficient mechanisms to control risks.
- Mitigating Risks – will involve having mitigation strategies in place which will mitigate the impact and severity should the risk materialise.

#### **5. Managing Risks**

##### **5.1 Definitions of Risk**

There are a number of helpful definitions of risk.

*Risk is the combination of the probability of an event and its consequences. Consequences can range from positive to negative.*

*Uncertainty of outcome, within a range of exposure, arising from a combination of the impact and the probability of potential events.*

*The uncertainty of an event occurring that could have an impact on the achievement of the objectives. Risk is measured in terms of consequences and likelihood.*

- 5.1.1 Risks therefore may result in negative consequences, which are damaging to the Association, or positive consequences, which are beneficial to the Association.

## 5.2 Definition of Risk Management

There are a number of helpful definitions of risk management.

*Process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of success and reducing the likelihood of failure.*

*All the processes involved in identifying, assessing and judging risk, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress.*

*Risk management is the set of activities within an organisation undertaken to deliver the most favourable outcome and reduce the volatility or variability of that outcome.*

- 5.2.1 Risk Management is therefore about identifying, monitoring, managing, controlling and mitigating risks with a view to achieving the most favourable outcome.

## 5.3 Risk Appetite

- 5.3.1 The Association's "risk appetite" is the amount of risk that the Association is prepared to accept, or be exposed to, in order to achieve its strategic and operational objectives.

- 5.3.2 It is extremely important when considering the Association's risk appetite to consider all risks and not just consider individual risks in isolation from one another, this is paramount when considering serious or significant risks.

- 5.3.3 Whilst it is extremely important not to consider serious and significant risks in isolation from one another, it is also important that this does not lead to the Association being 'risk averse', resulting in the loss of opportunities which would be beneficial to the Association.

## 5.4 Risk Classification

- 5.4.1 Risks can be classified into the following:

- Legal Risks – risks that have a criminal and/or civil liability element.
- Regulatory Risks – risks that involve regulatory action.
- Constitutional Risk – risks which relate to the Association's Rules and Standing Orders.
- Financial Risks – risks to the Association's loan covenants, 30 Year Financial Plan, annual budget.
- Strategic Risks – risks that would affect the Association's ability to deliver one or more of its strategic objectives.
- Operational Risks – risks relating to the Association's operational activities.
- Reputational Risks – risks that involve the Association's reputation and standing within the social housing sector and our communities.

- 5.4.2 Whilst it is helpful to classify risks within certain headings it is more important to note that the risks are interrelated and if a risk materialises it may involve more than one classification.

## 5.5 Risk Management Analysis Matrix

5.5.1 The analysis of identified risks should include consideration of how important it is that the Association exposes itself to the identified risk. Exposure to risk must be consistent with achieving the Association's strategic and operational objectives.

5.5.2 Each identified risk will be allocated an individual score against the Impact and Severity of the Risk and against the Likelihood and Probability of the Risk materialising.

<b>5.5.3 Impact and Severity of the Risk:</b>	<u>Score</u>
Death or financial collapse	5
Serious injury or significant financial harm	4
Lost time injury, or long term financial impact	3
Minor injury, or short term financial impact	2
Trivial injury, or minor financial impact	1

<b>5.5.4 Likelihood and Probability of the Risk:</b>	<u>Score</u>
Certain	5
Almost certain	4
Common or very likely	3
Occasional or likely	2
Rare or unlikely	1

5.5.5 Each identified risk will be given an overall score depending on its impact and severity and likelihood and probability, the overall score being the product of the individual scores.

Risk Management Analysis Matrix						
Impact and Severity the of Risk	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
	Likelihood and Probability of the Risk					
	Low Risk Priority 3		Medium Risk Priority 2		High Risk Priority 1 Serious and Significant Risks	

## 5.6 Taking Appropriate Action: Hierarchical Principles of Risk Management

- 5.6.1 Action to be taken to minimise the likelihood and probability and/or the impact and severity of identified risk should be stated within the Risk Management Tables and referenced in the Risk Assurance Register and the Association's Internal Management Plan.
- 5.6.2 The Association will approach its strategic and operational objectives in a way that avoids putting an undue risk on its tenants and residents, its assets, its regulatory and charitable status and its reputation.
- 5.6.3 The Association will approach those risks classified at 5.4.1, with the hierarchical principles of risk management in mind: elimination, substitution, control mechanisms and mitigation strategies.
- 5.6.4 The attention, focus and effort to be taken in respect of identified risks are likely to be as follows:
- Low Risk – the attention, focus and effort should be on simple and inexpensive solutions.
  - Medium Risk – increased attention, focus and effort should be made to reduce the risk.
  - High Risk – considerable attention, focus and effort should be attached to risks which are serious and significant.

## 5.7 Insurance

Insurance is an example of transferrable risk and is an important tool in the management of risk. Therefore, the Association will ensure that all identified risks which are required by legislation or by contract or by agreement to be insured against have adequate insurance cover and the insurance cover is reviewed and renewed periodically, most often annually. In all other situations judgement will be used on whether to take insurance or, instead, simply carry the risk.

## 5.8 Reporting on risks

In addition to the Risk Management Tables and the Risk Assurance Register, the following will incorporate a statement on risk.

- 5.8.1 All Committee Reports must incorporate a statement on the risk implications associated with the specific report.
- 5.8.2 All Policies must incorporate statement on risk management.
- 5.8.3 Risk will be considered as an integral part of the Association's Internal Management Plan (IMP). The risks associated with each activity in the plan should be stated.

# 6. **Risk Management Responsibilities**

## 6.1 Management Committee

- 6.1.1 The Association's Management Committee accepts that one of its primary responsibilities is to identify, monitor and manage risks. The Management Committee has overall responsibility for the adequacy of the Risk Management Framework. Management Committee has a particular responsibility to be aware of and understand serious and significant risks which, if they

materialised, would have an adverse impact on the Association's Internal Management Plan (Business Plan).

6.1.2 The Management Committee will refer to the Risk Management Framework for business planning and budgetary purposes. The monitoring of serious and significant risks will provide the Management Committee with the necessary information to make decisions in respect of the Association's Internal Management Plan (Business Plan).

6.1.3 Through the identification, monitoring and management of serious and significant risks the Management Committee can ensure that all actions taken contribute toward the achievement of the Association's strategic objectives, and that the risks associated with its decisions are adequately controlled and mitigated.

6.1.4 As mentioned at 4.2, Management Committee will be presented within the Risk Management Tables quarterly.

6.1.5 The Risk Management Tables will incorporate:

Risk scores which have increased or decreased, and the reasoning behind this;  
Risks which have been added or removed and the reasoning behind this; and  
Summary narrative of changes in relation to the risks.

6.1.6 The Chief Executive (Senior Risk Officer) will present the Risk Management Tables to Management Committee.

## 6.2 Audit, Finance and Risk Management Committee

6.2.1 The Audit, Finance and Risk Management Committee's Terms of Reference include risk management, by way of delegated authority of the Management Committee. This delegated authority is to assist the Management Committee in discharging one of its primary responsibilities to manage risk.

6.2.2 As mentioned at 4.3, the Audit, Finance and Risk Management Committee will be presented within the Risk Assurance Register quarterly.

6.2.3 The Risk Assurance Register will incorporate:

Reference to changes and a summary narrative in relation to three lines of defence;  
Reference to Internal Audits; and  
Reference to the Risk Management Tables.

6.2.4 The Corporate Services Director (Deputy Senior Risk Officer) will present the Risk Assurance Register to the Audit, Finance and Risk Management Committee.

## 6.3 Executive Officers

6.3.1 The Chief Executive is the Senior Risk Officer, with the delegated responsibility for ensuring efficient and effective implementation of the Association's Risk Management Framework.

6.3.2 The Corporate Services Director is the Deputy Senior Risk Officer and, in the absence of the Chief Executive, will deputise as the Senior Risk Officer.

## **6.4 Managers**

- 6.4.1 Individual Managers within the Management Team have responsibility to identify, monitor and manage risks within their department and for ensuring suitable and sufficient control mechanisms and mitigation strategies are in place.
- 6.4.2 The Management Team will identify all risks faced by the Association based on knowledge of the Association's strategic and operational objectives.
- 6.4.3 The Management Team also takes responsibility for continuous review and updating of the Risk Management Tables and the Risk Assurance Register. This is part of the Association's risk management ethos and culture.

## **6.5 Staff**

Individual Managers will ensure that staff within their departments are aware of the Risk Management Tables and make a contribution to their continuous review. Again, this is part of the Association's risk management ethos and culture.

## **7. External Audit and Internal Audit**

### **7.1 External Audit**

- 7.1.1 The risk management processes outlined in this Policy are a key part of the way in which Management Committee reviews the effectiveness of the Risk Management Framework. It therefore contributes to the Management Committee being in a position to make an annual public statement on risk, and internal financial control, within the annual Financial Statements.
- 7.1.2 The Financial Statements will also identify the top ten significant risks.

### **7.2 Internal Audit**

Internal Audits are aligned with the Association's strategic objectives and significant risks and for that very reason will make reference to the risks associated with the particular subject matter of the audit.

## **8. Communication with the Scottish Housing Regulator – Notifiable Events**

- 8.1 RSLs must inform the Scottish Housing Regulator of any material, significant or exceptional issue or event which they encounter. What is material, significant or exceptional will depend on the nature of the event or issue.
- 8.2 The Association regards significant risks which materialise as material, significant and exceptional and hence significant risks which have materialised may have to be reported to the Scottish Housing Regulator.
- 8.3 The Chief Executive is responsible for notifying the Scottish Housing Regulator.
- 8.4 The Chief Executive will notify the Chair of the Association and the Chair of the Audit, Finance and Risk Management Committee immediately, and prior to notifying the Scottish Housing Regulator, of any significant risks which have materialised.

## **9. Risk Management Statement**

- 9.1 The three documents which form the Risk Management Framework: Risk Management Policy, Risk Management Tables and Risk Assurance Register, provide a comprehensive statement on the Association's approach to risk management.

## **10. Equality and Diversity Statement**

- 10.1 The protected characteristics enshrined in the Equality Act 2010 will be respected when ensuring compliance with the Association's Risk Management Policy.

## **11. Policy Monitoring and Review**

- 11.1 The Chief Executive and the Corporate Services Director will monitor the implementation and operational effectiveness of the Risk Management Policy.
- 11.2 The Association will regularly monitor good practice advice from Scottish Housing Regulator and the Institute of Risk Management and adopt such advice when formulating the review of the Risk Management Policy.
- 11.3 The Risk Management Policy, one of the three documents which form the Risk Management Framework, will be reviewed every three years or as and when necessary.