Paragon Housing Association Limited

POLICY:	**RISK MANAGEMENT POLICY & RISK MANAGEMENT STRATEGY**
POLICY AREA:	**GOVERNANCE**
DATE APPROVED:	**March 2015**
DATE NEXT REVIEW:	**March 2018**
Note: Annual Risk Review (Scheduled August)	

Contents

Policy Background

The management of risk is a key part of good governance of the organisation. It is important to recognise that risk management is recognised and practiced across all our activities, not just those associated with financial management.

Good risk management ensures stability and viability thus benefiting tenants, other service users and the organisation itself.

Effective risk management is also a key requirement set out in standards published by the Scottish Housing Regulator

Regulatory Requirement

SHR Regulatory Standard:

Governance & Financial Management April 2012

Extracts

5.1. This section sets out our Regulatory Standards of Governance and Financial Management and our guidance. All RSLs must comply with these standards and guidance and, by doing so, demonstrate effective governance and sound financial management and deliver good outcomes for tenants.

5.6. When we refer to governance we mean the arrangements for the leadership, strategic direction and control of an RSL. A well-governed RSL delivers good tenant outcomes; demonstrates strong and effective leadership; manages and mitigates risk sensibly; is open and accountable; and maintains high ethical standards. An RSL with poor governance can experience problems with achieving good tenant outcomes, and put at risk the viability of the organisation, stakeholders' confidence, and the good reputation of the sector.

Standard 4

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

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.

Appendix 4 – Guidance Extract on Role of Audit Committee

Appendix 1 sets out a glossary and definition of terms.

What is Risk?

Risk: “Any event which impacts on the organisation’s ability to meet its key objectives”

What is Risk Management?

Standard 4

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

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.

Embedding a Risk Management Culture

Risk management is a responsibility of all staff and Management Committee members.

Where significant decisions are being taken by the Association, a separate Risk Assessment will be carried out and the finding recorded.

What is Internal Audit?

“An independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation”

Organisations must have internal controls to ensure efficient and effective operations, have internal financial control and compliance with law and regulation

Why Internal Audit?

- To ensure that internal controls are adequate
- To ensure proper management of risk of failure
- To ensure that managing risk of lost opportunity

There are a number of options for the provision of the Internal Audit function and the Association will regularly review the effectiveness of the Internal Audit function and evaluate options.

Policy Objectives

The Management Committee is responsible for managing risk. This function is supported by the Risk Management Policy and Strategy which shall detail how the Association identifies, evaluates, controls and monitors risk.

A Risk Assessment and Risk Management Plan shall be produced by the Association. This will normally be reviewed annually by the Management Committee. The Audit Committee receives and reviews a quarterly risk report and as part of that process emerging risks are identified.

The Audit Committee shall report regularly to the Management Committee.

Methodology – Risk Assessment

Risk Management is a cycle and the Association will assess and manage risk by going through the following processes

- Identification
- Evaluation/Assessment
- Control
- Monitoring

Risks will be assessed at 2 levels and assessed under the areas of potential impact

1. **Strategic - hazards and risks which need to be considered when making decisions about medium and long term goals**

    - political
    - economic
    - social
    - technological
    - legislative
    - competitive
    - customer

2. **Operational – risks and hazards which managers and staff will encounter in the daily course of their work**

    - professional
    - financial
    - legal
    - physical
    - contractual
    - technological
    - environmental

The key areas of activity for the Association are **-**

- Management and Governance Activities
- Housing Management
- Programme and Regeneration
- Finance

Appendix 2 sets out **“**Categories of Risk**”**

Evaluation & Ranking of Risk

Level of Risk = Frequency of Event x Severity of Event

Risks shall be ranked according to the following categories. To establish the level of risk a prudent and informed view should be taken as to the frequency and severity of the occurrence.

Low (L)

Risks where consequences will not be severe and any associated losses will be relatively small. As individual occurrences they will have a negligible effect on service provision. However if action is not taken then these risks might have a more damaging effect cumulatively.

Medium (M)

These risks have a greater impact on the service provided. Each one will impact on service provision and impinge on the budget.

High (H)

These risks have a catastrophic effect on the operation of the organisation and on service provision.

For the avoidance of doubt, **Appendix 1** contains a glossary of terms and definitions.

Risk Management Strategy

Setting a Risk Strategy

The Risk Management Strategy sets out the Association’s approach to risk and how it will be managed. It is approved by the Management Committee and is periodically reviewed

Risk Appetite

The Association is governed by a suite of plans, policies and rules. It operates in a regulatory environment. Activities will be undertaken in accordance with these frameworks and our approach is risk averse. However it is it recognised that risk exists and must be managed to ensure the viability of the organisation, its ongoing development and protection of its reputation.

Risk Management Framework

The Association recognises that Risk Management is an ongoing process and that a Risk Management "cycle" is in operation.

Responsibilities

The Management Committee is responsible for managing risk. It is supported in this function by the Audit Committee.

The Audit Committee is a formally constituted standing committee of the Association. It has the opportunity to report directly to the Chair of the Association. The Audit Committee ensures that the Management Committee receives support in the management of risk by regularly reviewing the Association's Risk Management Strategy and making recommendations to the Management Committee.

On a day to day basis responsibility to manage risk shall rest with the Director. Departmental Heads have the responsibility to identify risks and for the effective management of risk for that Department.

All staff members have a duty to effectively manage risk in their own activities, to follow polices and procedures and report on the effectiveness of the Risk Management Policy and Plan to their Departmental Heads

Identifying & Prioritising Risk

A Risk Management Strategy is in place and it shall normally be reviewed annually by the Management Committee.

The Strategy

- Identifies risks
- Assesses risks
- Identifies control actions
- Identifies review processes
- Identifies triggers for actions

Senior staff members prepare a quarterly Risk Report for the Audit Committee. The Audit Committee reviews the quarterly risk report and monitors the risk evaluation in light of experience. As part of that process emerging risks are identified.

There are events which occur outwith this cycle. Any events arising which are likely to result in significant material loss, damage or injury must be reported to the Management Committee at the earliest opportunity

The result of the risk assessment shall form the basis of the rolling programme of Internal Audit. This programme assists in identifying weakness in internal control and actions to improve risk management.

Risk Management Activities

The principle ways the Association will seek to avoid risk and manage risk are as follows

- Ensuring adequate insurance is in place to cover potential hazards
- Ensuring an action plan is in place to avoid business interruption
- Ensuring adequate and effective polices & procedures are in place to avoid error and fraud
- Regularly reviewing performance with a view to taking corrective action
- Ensuring activities are adequately planned and include project risk assessments where appropriate
- Ensuring adequate financial and business planning
- Carrying out sensitivity analysis
- Ensuring professional advice is utilised
- Ensuring staff & committee receive adequate training to perform their duties

Reports from Internal and External Auditors and Performance Reports shall be used to evaluate the Association's performance in relation to risk minimisation. They will provide the basis for continuous improvement.

Improving Risk Management

Internal Audit Strategy

One tool in management of risk is the Internal Audit (IA) function. An effective IA Strategy is a key factor in ensuring effective internal control and assists in managing risk effectively.

It is also recognised that a balance needs to be struck between costs and benefits of internal control.

This strategy provides a framework for

- Management of Internal Audit Services
- reviewing the effectiveness of Internal Audit services
- assessment of options for Internal Audit Services is to be carried out
- the method of procurement,
- Setting the IA programme

Management of IA Services

Objectives of Internal Audit

- independently review and appraise the systems of control throughout the organisation
- ascertain the extent of compliance with procedures, policies, regulation and legislation
- provide reassurance to management that their agreed policies are being carried out effectively as regards control of the risks associated with these policies
- recommend improvement in control, performance and productivity
- review the value for money which processes, systems and units within the organisation can provide
- identify areas of waste and inefficiency
- advise on better ways of achieving corporate objectives

Management Process

The Audit Committee has responsibility for internal audit matters and will manage the Internal Audit process. The Audit Committee has a remit approved by the Manage ment Committee.

However the Internal Auditor shall have a right to access to the full Management Committee. The Audit Committee remit covers their role in respect of the Internal Audit**.**

The Audit Committee shall receive reports from IA and will monitor progress towards implementing recommendations. Sample at Appendix 6.

Reviewing the IA Service - Effectiveness & Options

The Audit Committee will regularly review the Internal Audit function and make recommendations to the Management Committee to ensure internal audit arrangements are adequate.

It is recognised that there are several way to deliver IA services. The Audit Committee will make recommendations to the Management Committee on the method of provision and the reappointment or otherwise of the internal audit service provider.

Appendix 4 provides a matrix for evaluating the most effective way of delivering Internal Audit and **Appendix 5** sets out the Association’s assessment of IA service requirements.

END

Appendix 1 : Glossary of Terms/Definitions

Risk Management	The process of defining and analysing risks and then deciding on the appropriate course of action in order to minimise and mitigate these risks.
Hazard	Anything with the potential to cause harm

Risk Management Cycle

- **Risk Identification -** Identifying and understanding the hazards and risks facing the organisation

- **Risk Analysis (or Evaluation) -** Systematic assessment of risks. Will involve degree of subjectivity but should use past experience and available data

- **Risk Control -** If a risk is unacceptable then steps need to be taken to control or respond to it.

- **Risk Monitoring** - Systems to review how well risk managed and review if the nature of the risk has changed over time.

- **Scale of Risk -** An assessment based on consideration of both the likelihood of the risk occurring and the severity of the consequences

Risk Severity

Low

Where consequences not severe and any associated losses will be relatively small. As individual occurrences they will have a negligible effect on service provision. However if action is not taken, then there can be a cumulative effect.

Medium

Where there is a noticeable effect on service provision. Each one will cause a degree of disruption to service provision and impinge on budget.

High

Where may be catastrophic effect on the operation of the organisation or service.
Can lead to significant financial loss, major service disruption or have significant effect on the public. Usually infrequent and difficult to predict

Appendix 2 : Categories of Risk

Strategic *Hazards or risks which need to be taken into account in judgements about medium to long term goals*

- **Political** - associated with the implications of the decision on the direction, values, image, credibility of the organisation
- **Economic** – those affecting ability to meet financial commitments
- **Social** – those relating to the effects of changes in demographic, residential or socio economic trends on the organisation's ability to deliver objectives
- **Technological** – those associated with capacity to deal with pace/scale of technological change
- **Legislative** – those associated with current or potential changes in law
- **Environmental** – those relating to environmental consequences of pursuing strategic objectives
- **Competitive** – those affecting the competitiveness of the business

Operational *Hazards and risks encountered on a day to day basis*

- **Professional** – those directly associated with particular nature of the business
- **Financial** – those associated with financial planning and control and adequacy of insurance cover
- **Legal** – associated with possible breaches of legislation
- **Physical** – those related to fire, security, health & safety etc
- **Contractual** – those associated with failure of contractors to deliver services or contracts to agreed costs/specifications
- **Technological** – those relating to reliance on operational equipment
- **Environmental** – relating to pollution, noise, energy efficiency etc

Appendx 3 : Evaluation Matrix IA Provision

The view from the Housing Corporation **(source - R2 25/01)**	
	Advantages
In-house	*Understands the culture of the organisation* *Full time posts, therefore more likely to act as a deterrent* *Lower cost* *Better value* *Greater ownership of systems and controls* *Greater likelihood of recommendations being implemented* *Good continuity*
Mixed delivery model	*Partnering is sometimes seen as the "best of both worlds", providing benefits such as the continuous improvement of the internal audit function and giving access to specialist skills that associations may not posses in-house.*
Outsourcing	*Wider breadth of skills* *Only paying for productive days* *Can bring best practices from other organisations* *Greater ability to do one-off projects and consultancy work* *Board more likely to listen to external party* *Easier to demonstrate independence from the organisation*

The view from the Institute of Internal Auditors **(source - Jackie P Cain, Technical Development Director, IIA UK and Ireland, 21 January 2005)**	
	Advantages
In-house	
Mixed Delivery Model	*The view of the institute is that internal auditing activities often use contracted resources to supplement volume and to provide specialist skills (sometimes known as co-sourcing) and that this is not only approved but encouraged so that functions have the right amount and level of skills to provide assurance to their organisations. However, in order to provide the most value to the organisation, it is beneficial to have a qualified professional internal auditor at a high level in the organisation, - therefore, we prefer to see the head of internal audit to be within that organisation.*
Outsourcing	

The view from an external provider

(source - extracts from a review of in house internal audit in a Housing Association)

	Advantages	**Disadvantages**
In -house	*Detailed local knowledge* *Greater control* *Management access to specialised resource*	*Fixed cost base reduces flexibility* *Risks and responsibility to pay for training, sickness and holidays* *Lack of specialist skills and broader picture*
Mixed delivery model	*This combines the distinct advantages of both internal and external provision i.e.* ▪ *retains a core of corporate knowledge,* ▪ *skilled resource available internally* ▪ *broader experience of external provider* ▪ *specialist skills to supplement the in house staff* ▪ *training and wider experience given to the in house team* ▪ *greater flexibility in the cost base*	*Retains risk of paying for prolonged loss of the internal staff*
Outsourced	*The following examples are often quoted as key factors to consider* ▪ *if economies of scale can be achieved* ▪ *if employment risks can be transferred* ▪ *if transferring the management would enable redirection of resources to priority functions* ▪ *if there is a need for specialist managerial, technical or professional capacity* ▪ *flexibility*	*Risk of poor service (as with all options)* *Reliance on an external provider* *TUPE of staff,* *"restructuring" of staff* *redundancy* *constructive dismissal*

The view from an in house provider **(source - extracts from additional comments on a review of in house internal audit)**		
	Advantages	**Disadvantages**
In-house	*Better able to embed internal controls as demonstrated through the success of risk control workshops, the creation of QA teams in Care and Housing and self audit management review checklists* *The current staff have a commitment to the Company's ethos which underpins the reason for the Group's existence.*	
Mixed delivery model	*Access to professional consultants will add the cutting edge to a team with intimate knowledge of the business.*	
Outsourced		*Any outsourced service must incur 17.5% VAT. A Housing Association cannot recover this* *Marketing costs of an external provider to recover* *This outsourcing is subject to EU procurement directives which set out extensive requirements for formal tendering, timetables and evaluation* *Extensive management time is required for this exercise which would distract from improving the service.* *Liaison with the external provider and monitoring the service by an executive member is still required and will take extra time at extra cost.* *Strict adherence to audit plan can have its downside when new services must be negotiated or flexibility is needed to address unforeseen issues.*

Appendix 4 : Paragon H A IA Evaluation Matrix

TYPE	BENEFITS	DISADVANTAGES
In-house Internal full/part time audit team	▪ Understanding of the culture of the Association ▪ Knowledge of organisation ▪ Potentially Reduced costs to Association ▪ Good continuity ▪ Greater control	▪ Perceived lack of independence ▪ Availability ▪ Lack of specialist skills? ▪ Require staff resources – impact on services ▪ Reduction in services ▪ Potential for internal conflict
External Consultant – specialist	▪ Professional experience ▪ Able to dedicate resources to task ▪ Independent ▪ Can bring best practices from other organisations	▪ Financial cost ▪ Quality potential issue? ▪ Skills range may be limited e.g. financial ▪ Only pay for productive days ▪ Any outsourced service must incur 17.5% VAT.
External Consultant – accountant	▪ Professional experience ▪ Able to dedicate resources to task ▪ Independent ▪ Can bring best practices from other organisations.	▪ Financial cost ▪ Skills range may be limited e.g. functional ▪ Only paying for productive days ▪ Any outsourced service must incur 17.5% VAT.
External Auditor	▪ Knowledge of organisation ▪ Able to dedicate resources ▪ Can bring best practices from other organisations	▪ Potential conflict of interest ▪ Potential for conflict with other parts of own organisation ▪ Potentially expensive ▪ Only pay for productive days ▪ Any outsourced service must incur 17.5% VAT.
Internal Audit Consortium with other Associations	▪ Knowledge of housing associations ▪ Possible cost benefits	▪ Time consuming to set up ▪ Competition issues ▪ Supervision – who judges quality? ▪ Contractual arrangement potentially complex
Mix of above	▪ All the above benefits. This combines the distinct advantages of both internal and external provision. ▪ Access to professional consultants will add the cutting edge to a team with intimate knowledge of the business.	▪ All the above costs plus possible lack of clarity on roles