Paragon Housing Association Limited

POLICY:	**RISK MANAGEMENT POLICY & RISK MANAGEMENT STRATEGY**
POLICY AREA:	**GOVERNANCE**
DATE APPROVED:	**9 June 2021**
DATE NEXT REVIEW:	**9 June 2024**

Note: Risk Review conducted annually in August

Contents

Policy Objectives

The management of risk is a key part of good governance of the organisation. Good risk management ensures stability and viability so benefiting tenants, other service users and the organisation itself.

It is important to ensure that risk management is recognised and practiced across all our activities, not just those associated with financial management. The Association's approach to risk is to ensure that a clear culture is established which recognises risk and addresses it appropriately.

The Risk Management Policy & Risk Management Strategy sets out this approach.

Regulatory Requirements

Effective risk management is a key requirement as set out the Scottish Housing Regulator's Regulatory Standards as published February 2019 and any subsequent revisions of the standards. The management of risk and ensuring compliance is a theme running through the Regulatory Standards.

Standard 4 is explicit on the need for effective strategies and systems for the management of risk and this document is the Association's overarching response to this requirement.

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 1 sets out a glossary and definition of terms. Page 14

What is Risk?

Risk: "Any event which impacts on the organisation's ability to meet its key objectives"

Embedding a Risk Management Culture/ Roles & Responsibilities

All staff and Management Committee members have a role identifying and managing risk. There are specific responsibilities pertaining to different roles.

Management Committee

The Management Committee establishes formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions.

It establishes procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Association is willing to take in order to achieve its long-term strategic objectives.

The Management Committee may delegate some functions to the Audit Committee by way of written delegated authority but the overall responsibility for the identification and management of risk remains with the Management 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 Risk Register and making recommendations to the Management Committee including on matters pertaining to the External &Internal Audit functions

Management Team

Management Team members have responsibility for ensuring risk management policies and procedures are effectively managed including

- Preparing the Risk Register for consideration by the Management Committee
- Preparing an Annual Risk Review and Annual Fraud Risk Review
- Monitoring risk and proving a Quarterly Risk Report to the Audit Committee
- Preparing risk appraisals of any new projects/policies/major activities/significant service changes

The responsibility for implementing the risk management process lies with the Director.

All Staff

All staff will be expected to have an awareness of the Association's risk management culture and manage risk as they perform their duties

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.

Risk Management Methodology and Process

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

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 Register will be produced and maintained by the Association. This will normally be reviewed annually by the Management Committee. The Audit Committee receives and reviews a quarterly risk report. As part of that process emerging risks are identified and mitigating actions tracked.

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**" Page 16**

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.

A matrix approach has been adopted and the following rankings developed.

Likelihood

Likelihood	Score	Impact
Rare	1	May only happen => 10 years or more
Unlikely	2	May only happen >4 <10 years
Moderate	3	May only happen >2 <4 years
Likely	4	May only happen >1 <2years
Almost Certain	5	Once a year or more frequent

Impact/Severity

Impact	Score	Impact Decription
Insignificant	1	• Can be managed • Financial impact<£5k • Not major barrier to achieving strategic or operational objectives • Of low concern to stakeholders • No customer impact
Minor	2	• Can be managed • Financial impact<£10k • Not major barrier to achieving strategic or operational objectives but some disruption eg systems failure < 2 hours, small performance deterioration • Of limited concern to stakeholders • Limited customer impact
Moderate	3	• Can be managed • Financial impact £10 k to £50k • Moderate barrier to achieving strategic or operational objectives eg more than 4 hours serve disruption • Of moderate concern to stakeholders • May attract local media intertest • Moderate but noticeable impact on customers • Moderate stakeholder interests
Major	4	• Difficult to manage – may require external support • Suspected fraud • Financial impact £50k to £250,000 • Significant barrier to achieving strategic or operational objectives • May attract national & sustained media intertest • Major impact on customers eg major loss of service • Significant stakeholder intertest / involvement • Loss of confidence
Catastrophic	5	• Very difficult to manage – likely to require substantial external support • Financial impact over £250k and on ongoing • May attract national & sustained media intertest/public outcry/loss of confidence • Suspected fraud • Significant barrier to achieving strategic or operational objective/ total service failure • High level impact on customers • Significant stakeholder interest / regulatory involvement

Risk Level

By multiplying Likelihood by Impact/Severity a Risk Level is established

Score	Description
1 to 3	Low
4 to 8	Moderate
9 to 16	Significant
16-24	High
25	Very High

Risk Matrix

From this a Risk Matrix can be produced

LIKELIHOOD		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
5	Almost Certain	HIGH	HIGH	VERY HIGH	VERY HIGH	VERY HIGH
4	Likely	SIGNIFICANT	SIGNIFICANT	HIGH	HIGH	VERY HIGH
3	Moderate	MODERATE	MODERATE	SIGNIFICANT	SIGNIFICANT	HIGH
2	Unlikely	LOW	LOW	MODERATE	SIGNIFICANT	SIGNIFICANT
1	Rare	LOW	LOW	LOW	MODERATE	MODERATE

IMPACT

Risk Reporting

A sample report is attached at Appendix 4 Page 18

Risk Management Strategy

On a day to day basis the 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 – Risk Register

A Risk Register is in place and it shall normally be reviewed annually by the Management Committee. There is a Fraud Risk Register which runs in parallel with the main Risk Register. This includes proposed actions to manage and mitigate risk

The Risk Register

- Identifies raw risks
- Assesses risks
- Identifies control actions
- Identifies retained risk
- 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 out with this cycle and events arising which are likely to result in significant material loss, damage or serious 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 Classifications

Raw Risk : Risk before controls are applied

Retained Risk : Risk after controls are applied

Controlling Risk- Risk Response

The Association has adopted 4 response categories in response to risk

Accept – where the risk is accepted and managed and monitored appropriately

Modify – where action is taken to modify the risk eg change how something is done

Transfer – where action is taken to pass responsibility to another party eg via contract or insurance

Eliminate – where action is taken to remove the risk eg cease the activity

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- contingency planning
- 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.

Improving Risk Management

Internal Audit

The Association adopts a positive approach to internal audit and uses this as a tool to improve standards and performance. It is an integral tool in the management of risk. An internal audit function is also a regulatory requirement under the provisions of Standard 4.

Standard 4 The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose

4.5 The RSL has an internal audit function. The governing body ensures the effective oversight of the internal audit programme by an audit committee or otherwise. It has arrangements in place to monitor and review the quality and effectiveness of internal audit activity, to ensure that it meets its assurance needs in relation to regulatory requirements and the Standards of Governance and Financial Management. Where the RSL does not have an audit committee, it has alternative arrangements in place to ensure that the functions normally provided by a committee are discharged.

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

Internal Audit Strategy

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
- Method of procurement,
- Audit Needs Assessment and 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. It will report to the Management Committee. The Audit Committee has a remit approved by the Management Committee.

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. A action tracker will be used.

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 (L)

Risks where consequences will not be severe and any associated impact will be relatively low level. 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.

Moderate (M)

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

Significant (S)

These risks have a great impact on the service provided. Each one will impact on service provision causing noticeable disruption , performance and impinge on the budget. Performance may be affected and there will be difficulties in reaching strategic and operational objectives. Stakeholder will have concerns and there is danger to reputation.

High (H)

These risks have a severe effect on the operation of the organisation, service provision , performance deterioration, significant impact on achievement of strategic and operational objectives, regulatory involvement ,damage to reputation and trust

Very High (VH)

These risks have catastrophic effect on the operation of the organisation, major service disruptions, significant impact on achievement of strategic outcomes or cessation of business regulatory intervention and loss of reputation and trust

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

Appendix 3 : 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 20% 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 20% 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 20% 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

Appendix 4 : Sample Risk Rating Report

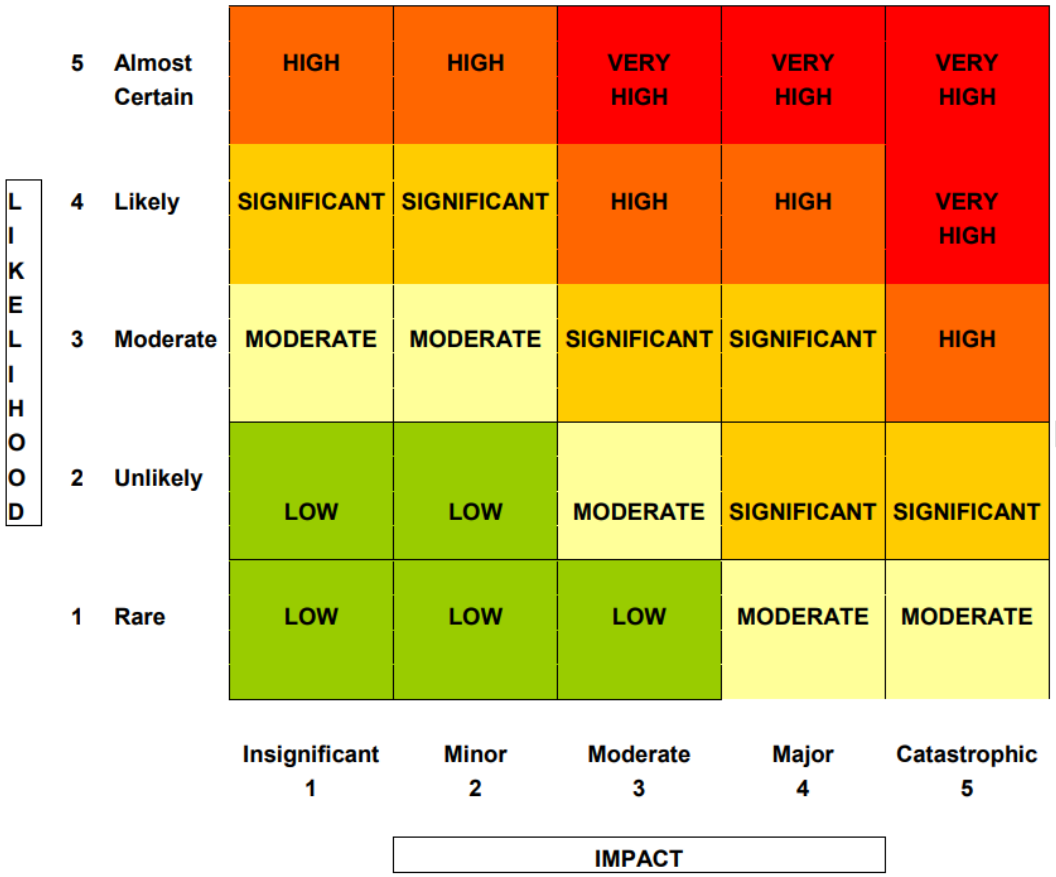
Paragon Housing Association	07/06/2021
Risk Rate Report	Date

This report details risk by rating post mitigation actions taken

SAMPLE ONLY

Key			
Likelihood		Impact	
Rare	1	Insignificant	1
Unlikely	2	Minor	2
Moderate	3	Moderate	3
Likely	4	Major	4
Almost Certain	5	Catastrophic	5

Impact Outcomes		
Score	Description	Likelihood x Impact
1 to 3	Low	
4 to 8	Moderate	
9 to 16	Significant	
16-24	High	
25	Very High	


LIKELIHOOD
5 Almost Certain
4 Likely
3 Moderate
2 Unlikely
1 Rare
HIGH
HIGH
VERY HIGH
VERY HIGH
VERY HIGH
SIGNIFICANT
SIGNIFICANT
HIGH
HIGH
VERY HIGH
MODERATE
MODERATE
SIGNIFICANT
SIGNIFICANT
HIGH
LOW
LOW
MODERATE
SIGNIFICANT
SIGNIFICANT
LOW
LOW
LOW
MODERATE
MODERATE
Insignificant 1
Minor 2
Moderate 3
Major 4
Catastrophic 5
IMPACT

Count of Rate	
Rate	**Total**
Very High	1
High	12
Significant	46
Moderate	52
Low	20
Grand Total	**131**