Risk Management Strategy

Policy Title:	Risk Management Strategy
Policy Author:	Audrey Simpson
Date of Approval:	23 June 2020
Date for Next Scheduled Review:	2023
Review Body:	Board of Management
Equality Impact Assessment Complete:	No
Policy Published on Web:	
Scottish Housing Regulator Standard:	4
Scottish Housing Regulator Guidance:	4.1

CONTENT

1. Overview and Purpose

This Risk Management Strategy applies to the Ardenglen Group, specifically, Ardenglen Housing Association and Ardenglen Developments Ltd. As the parent organisation, we refer to Ardenglen Housing Association within this document.

This Strategy aims to provide a clear and systemic overview of our approach to risk management, covering how we identify risks, assess their likelihood of occurring and their impact on the organisation and, finally, how we then respond to these risks to effectively manage them. We also describe our risk appetite and provide clarity on roles and responsibilities.

Risk Management is an integral part of our strategic planning and decision-making processes. For new initiatives and projects, risk assessment and management will be used to inform our decision-making process and to ensure that approved projects are delivered successfully.

Risks that could affect our medium to long-term goals are considered strategic risks. Risks that will be encountered in the day-to-day delivery of services are considered operational risks.

We consider the materiality of risk in developing our responses through the statement of our appetite or threshold for risk.

The management of risk is not a linear process; rather it is the balancing of several interwoven elements which interact with each other. It is essential that the risk management process is intertwined with other operating activities and permeates the organisation's management.

Managing the risks to our business objectives reduces the chance of us having to deal with the unexpected and ensures proactive management rather than reactive crisis management.

2. What we mean by risk

In this Strategy 'risk' is defined as something happening that may have an impact on the achievement of our objectives. It includes risks as an opportunity as well as a threat and creating an environment of 'no surprises'. When our management of risk goes well it often remains unnoticed. When it fails, however, the consequences can be significant and high profile.

By effectively managing our threats we will be in a stronger position to deliver our business objectives. By managing our opportunities, we will be in a better position to provide improved services and better value for money.

Risk can be defined as '*the threat or possibility that an action or event will adversely affect an organisations ability to achieve its objectives'.*

Risk Management can be defined as '*the process which aims to help Ardenglen understand, evaluate and take action on all our risks with a view to increasing the probability of our success and reducing the likelihood of failure.'*

Risk management is the process by which we:

- Identify risks in relation to the achievement of Strategic and Operational Objectives.
- Assess their relative likelihood and impact.
- Respond to the risks identified, considering our assessment of risk.
- Assess all tolerance of risk and the assurance levels of the controls.
- Review and report on risks, to ensure the risk register is up to date, to gain assurance that responses are effective, and identify when further action is necessary.

The goals of risk management are to:

- Take a proactive approach, anticipating and influencing events before they happen.
- Facilitate better informed decision making.
- Protect and promote Ardenglen Housing Association's reputation.
- Improve contingency planning.

3. Risk Management Aims and Objectives

Our approach to risk management should support the following:

- Provide continuous high-quality services to the customers of Ardenglen Housing Association.
- Use appropriate identification and analysis techniques to identify risks to Ardenglen Housing Association and determine the long- and short-term impact.
- Prioritise and implement economic control measures to reduce or remove risks.
- Protect and promote the reputation of Ardenglen Housing Association.

- With training and communication, develop and maintain a structured risk management culture, where risk is considered in the decision-making process and the everyday working situation of all staff.
- Maintain a system for recording and providing accurate, relevant and timely risk management information.
- Reduce the long-term cost of risk to Ardenglen Housing Association.
- Report on and review the risk management policy in accordance with best practice guidelines.

4. Underlying approach to Risk Management

The following key principles underline Ardenglen Housing Association's approach to risk management and internal control:

- The Board has responsibility for overseeing risk management within Ardenglen Housing Association as a whole.
- An open and receptive approach to solving risk problems is adopted by the Board.
- The Chief Executive and Senior Management Team support, advise on and implement policies approved by the Board.
- Risk management forms part of Ardenglen Housing Association's system of internal control.
- Ardenglen Housing Association makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risk.
- All staff are responsible for encouraging good risk management practices within their areas of responsibilities.

The Risk Management Strategy is part of a wider system of internal control, aimed at supporting Ardenglen Housing Association to realise its strategic objectives, mitigate risk, and ensure long term financial viability. Some of the other controls include:

Financial Regulations and Procedures

The Associations approved financial regulations and procedures underpin the internal control process. The policies are approved by the Board and are implemented and communicated to staff.

Business Planning and budgeting

The business planning and budgeting process is used to set objectives, agree action plans and allocate resources. Progress towards meeting business plan objectives is

monitored regularly. The risk management process is to be embedded within the business planning process.

Audit and Risk Committee

The Audit and Risk Committee is required to report to the Board on internal controls and alert members to any emerging issues. In addition, the Committee oversees internal audit, external audit and management as required in its review of internal controls. The Committee is therefore well placed to provide advice to the Board on the effectiveness of the internal control system, including the Association's system for management of risk.

Internal Audit Programme

Internal audit is an important element of the internal control process. Apart from its normal programme of work, internal audit is responsible for aspects of the annual review of the effectiveness of the internal control system within the Association.

External Audit

External audit provides feedback to the Audit and Risk Committee on the operation of the internal financial controls reviewed as part of the annual audit.

Assurance Statement

Ardenglen Housing Association will take positive steps to ensure compliance with all regulatory requirements relating to risk management and have management arrangements, resource skills and systems which are appropriate to their circumstances, scale and scope of operation.

The Association has a robust process to conduct a self-assessment on compliance with the Regulatory Framework and an Annual Assurance Statement is prepared and submitted to the Scottish Housing Regulator annually.

5. Risk Management Process

Identifying Risks

Identifying risks is the first step in building a Risk Register. The process of identifying and defining risks establishes common understanding of the risks and therefore better capabilities to respond appropriately.

The Risk Register is a live document with opportunities to update it on an ongoing basis, together with an approach of formal reviews.

Using Ardenglen Housing Association's objectives, it will identify the potential threats that could jeopardise their achievements and in turn look at ways to manage these risks.

Risk identification attempts to identify exposure to uncertainty. Risk owners are responsible for identifying the risks that the service area or department face.

It can become confusing when identifying risks so care should be taken to avoid:

- Getting into the labyrinth of stating the impact of other risks as risks themselves.
- Stating risks that do not impact on the objectives.
- Stating risks that are clearly well beyond the control of the Association, for example nuclear war.
- Defining risks with statements which are simply the converse of objectives.

Having identified the risks, these are recorded on the Risk Register system.   There are two key registers – Strategic Risk Register and Operational Risk Register. Where appropriate however, a project level risk register will be maintained for a specific strategic initiative such as a new build development project.

Assessing Risks

There are five important principles for assessing risks:

- Ensure that both likelihood and impact are considered for each risk.
- Record the assessment of risk in a way which allows the identification of risk priorities.
- Be clear about the difference between inherent (the risk before controls are considered) and residual (the risk after the controls are considered) risk.
- Avoid confusing causes with risks.
- Be clear about the assurance levels of the controls.

For each risk an assessment should be made of the likelihood of it occurring and the relative impact if it does. The more clearly risks are defined at the identification stage, the more easily they can be assessed. Likelihood is the probability of chance of the risk occurring and impact is the probable effect on the Association if the risk occurs.

Each risk is assessed twice. Firstly 'pre-control' risk, which is the exposure arising from a specific risk before any action has been taken to manage it. Secondly the 'post control' risk which is the exposure arising from a specific risk after action has been taken to manage it and assuming that the action is effective.

The impact descriptors are only an indication of the probable effect on Ardenglen Housing Association if the risk occurs; they are not hard and fast rules. It is essential that staff use their knowledge and judgement when deciding on the score for impact.

When exploring the detail behind each of our identified risks we are looking at the causes and consequences of the risks. This helps us to build a better picture of the risk landscape, identifying commonality in terms of the factors causing the risks, as well as the likely possible consequences of these.

We then begin to look at the control measures which are, or can be put in place, to limit or remove the risk. Behind these controls we are building up a list of actions that will need to be delivered in order to make the control fully effective.

We are then able to score each of the risks, which is done based on likelihood multiplied by impact. Each of these elements is scored between 1 and 5, providing a risk score between 1 and 25, with 25 being the highest risk.

LIKELIHOOD			IMPACT	
5	Almost Certain		5	Extreme
4	Likely		4	Major
3	Possible		3	Moderate
2	Unlikely		2	Minor
1	Rare		1	Insignificant

6. Addressing Risk

The purpose of addressing risk is to turn uncertainty to the organisation's benefit by constraining threats and taking advantage of opportunities.

The appropriate response to each risk will depend on its nature and the outcome of the risk assessment. The degree of attention required should be proportionate to the level of risk and the cost and benefit involved in any action taken to reduce the risk.

For each risk, the key activities designed to manage the exposure must be defined to support tracking and monitoring of the nature of the risk concerned. This must include both the risk at the time of the review – the controls in place at the time of the 'before' assessment, and the action planned in the light of the 'after' assessment.

There are four key aspects of addressing risk:

Response	Description
Tolerate	The controls in place reduce the likelihood and impact levels to an acceptable level and the introduction of additional controls would be cost-benefit prohibitive. It is therefore decided to tolerate the risk.
Treat	Risks need additional treatments (controls) to reduce the likelihood and impact levels. This response is most likely where the risk has been identified as a high risk due to the likelihood and impact levels and Ardenglen Housing Association can introduce further controls that will reduce the likelihood and/or the impact of the risk.
Transfer	It may be appropriate to transfer the risk e.g. insurance, legal liability. However, it must be remembered that this is not possible for all risks.
Terminate	A risk may be outside Ardenglen Housing Association's risk appetite and the Association does not have the ability to introduce additional controls to reduce the likelihood and/or impact of the risk therefore there is no other option than to terminate the activity generating the risk.

7. Risk Appetite

The aim of the Risk Strategy is not to remove all risk but to recognise that some level of risk will always exist. Indeed, it is recognised that taking risks in a controlled manner is fundamental to innovation and the building of a 'can do' culture. Risk appetite is the amount of risk that the organisation is prepared to accept, tolerate or be exposed to at any point in time.

Our risk appetite can be expressed as a boundary, above which we will not tolerate the level of risk and further actions must be taken.

The charts below set out the possible scores when looking at a combination of 'impact' and 'likelihood'.

IMPACT		Rare - 1	Unlikely - 2	Possibly - 3	Likely - 4	Almost Certain - 5
	Extreme - 5	15	19	22	24	25
	Major – 4	10	14	18	21	23
	Moderate – 3	6	9	13	17	20
	Minor – 2	3	5	8	12	16
	Insignificant – 1	1	2	4	7	11
				LIKELIHOOD		

	Key	
High	15-25	Unacceptable level of risk exposure which requires immediate corrective action and constant active monitoring, and measures to be put in place to reduce exposure.
Significant	7-14	Unacceptable level of risk exposure which requires constant active monitoring, and measures to be put in place to reduce exposure.
Moderate	4-6	Acceptable level of risk subject to regular active monitoring measures.
Low	1-3	Acceptable level of risk subject to periodic passive monitoring measures.

Everything that scores 6 or under is acceptable and anything that scores 7 and above isn't.

The risk appetite is monitored by the inherent and residual risk assessment figures. Generally, we will wish to manage closely all residual risks scoring 7+ and will not wish to tolerate risks scoring 15+.

An organisation's risk appetite is not necessarily static. The Board may vary the amount of risk which it is prepared to take depending on the circumstances.

The Board has agreed to focus on monitoring of risks with a score of 7 or more and have delegated to the Senior Management Team for the review and monitoring of the whole register, and those risks scoring less than 7.

8. Risk Roles and Responsibilities

The Board

The Board has a fundamental role to play in the management of risk. Its role is to:

- Set the tone and influence the culture of risk management within Ardenglen Housing Association. This includes:
  - Determining whether Ardenglen Housing Association is 'risk taking' or 'risk averse' as a whole or on any relevant individual issue.
  - Determining what categories of risk are acceptable and which are not.
  - Setting the standards and expectations of staff with respect to conduct and probity.
- Determine the appropriate risk appetite or level of exposure for Ardenglen Housing Association.
- Approve major decisions affecting Ardenglen Housing Association's risk profile and exposure.
- Monitor the management of significant risks to reduce the likelihood of unwelcome surprises.
- Satisfy itself that the less significant risks are being actively managed, with the appropriate controls in place and working effectively.
- Annually review Ardenglen Housing Association's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

Audit and Risk Sub Committee

The Audit and Risk Sub Committee will at each of the scheduled meetings receive an update report on the Strategic Risks Register. Its role is to:

- Monitor the management of high-level risks.
- Will provide a summary report on the Strategic Risks to the Board at each of its scheduled meetings, following the Audit and Risk Sub Committee.
- Review the Risk Appetite of Ardenglen Housing Association and make recommendations to the Board.
- Satisfy itself that all known risks are being effectively managed, with the appropriate controls in place and working effectively.

- Annually review Ardenglen Housing Association's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

Chief Executive

The main role and responsibility of the Chief Executive specific to risk management includes:

- The CEO will ensure that Ardenglen Housing Association manages risk systemically, economically and effectively through the development of an all-encompassing Risk Management Strategy.
- To support Ardenglen Housing Association in the development, implementation and review of the Risk Management Strategy.
- To share experience on risk, risk management and policy implication across Ardenglen Housing Association.
- To acquire a knowledge of risk management and its benefits.
- Monitor, evaluate and update Ardenglen Housing Association's Strategic Risk Register at least once a quarter.
- Review the Risk Management Policy at least once a year to ensure it still fits with the operating environment.
- Report to each meeting of Ardenglen Housing Association's Audit and Risk Sub Committee on the status of risks and controls.
- Ensure risk management and its processes are disseminated and are embedded throughout Ardenglen Housing Association.
- Continuous development, promotion and implementation of risk management throughout Ardenglen Housing Association.
- Prepare or oversee the preparation of relevant contingency plans in those areas that are considered high risk.
- To review any training requirements to enable the development and implementation of risk management.

The Senior Management Team

The Senior Management Team are responsible for ongoing risk identification and management.   This takes place within the annual strategic planning processes, as well as on an ongoing basis throughout the year. Once strategic risks have been identified they are added to the strategic risk register, assessed and managed appropriately.

Senior Management Team will, on a quarterly basis, collectively review the Strategic Risk Register. In addition, they have responsibility to disseminate the detail of the

Risk Management Strategy and allocate responsibilities for implementation of the Strategy and actions identified in the Strategic Risk Register.

The Director of Operations, supported by other members of Senior Management Team, has specific responsibility to lead on the Operational Risk Register. The Operational Risk Register will be reviewed by the Senior Management Team on a quarterly basis.

Risk Owners

The Strategic Risk Register identifies actions aligned to a risk owner. The risk owners are responsible for ensuring that each risk assigned to him/her is managed and monitored over time and updates provided to SMT on a quarterly basis.

All Staff

Whilst this strategy document sets out defined processes for managing risk, successful risk management can only be accomplished on a day to day basis by staff at all levels through their working practices; it does not simply lie inert in corporate policies and management structures.

Risk management is the responsibility of every member of staff and virtually everyone has a role in carrying out appropriate risk management by supporting risk identification, assessment and designing and implementing risk responses.

Internal Audit

The Internal Audit function plays a key role in evaluating the effectiveness of, and recommending improvements to, the risk management process. This is based on the systemic review and evaluation of the policies, procedures and operations in place to:

- Establish, and monitor the achievements of, the organisations objectives.
- Identify, assess and manage the risks to achieving the organisation's objectives.
- Advise on, formulate, and evaluate policy.
- Ensure the economical, effective and efficient use of resources.
- Ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations.
- Safeguard assets and interests from losses of all kinds, including fraud, irregularity or corruption.
- Ensure the integrity and reliability of information.

In addition, Internal Audit aims to add value through:

- Supporting the identification of risks and the development of processes and procedures to assess and effectively respond to risks.
- The identification and recommendation of potential process improvements.
- The provision of advice to manage risks in developing systems, projects and procedures.
- The provision of best practice advice to all sections of the association; and encouraging best practice and producing continuous improvement.

9. Review

This Strategy should be reviewed within three years unless required earlier due to changes in the law, regulation, best practice or requirements of the Association.

		Business Impact
5	Extreme	Reputation - Sustained widespread media critical coverage. SHR statutory intervention & potential transfer of assets.
		Financial Loss in excess of £1m
		Service Delivery - Significant disruption of the whole organisation
		Legislative - legislation has significant impact on the whole operation
4	Major	Reputation - Prolonged National Media Exposure. SHR statutory intervention.
		Financial Loss between £250k and £1m
		Service Delivery - Significant disruption of large parts of the organisation
		Legislative - legislation has significant impact on a key area
3	Moderate	Reputation - One-off National Media Exposure. SHR engagement - Regulation Plan
		Financial Loss between £50k and £250k
		Service Delivery - Significant disruption of one part of the organisation
		Legislative - legislation has moderate impact on a number of functions.
2	Minor	Reputation -Prolonged Local Media Exposure. SHR engagement
		Financial Loss less than £50k
		Service Delivery - Minimal disruption of the whole organisation
		Legislative - legislative impact affects small number of procedures.
1	Insignificant	Reputation - One-off Local Media Exposure.
		Financial Loss - Negligible financial impact
		Service Delivery - Minimal disruption of one part of the organisation
		Legislative - minimal Legislative Implications
		Likelihood (of risk manifesting)
5	Almost Certain	The risk is almost certain to occur (greater than 80% chance)
4	Likely	The risk is more likely to occur than not (between 51% and 80% chance)
3	Possible	The risk is fairly likely to occur (between 21% and 50% chance)
2	Unlikely	The risk is unlikely but not impossible to occur (between 6% and 20% chance)
1	Rare	The risk is unlikely to occur (<5% chance)
		Risk Score = Business Impact x Likelihood
15 or >		Risk Score is **High**
8-12		Risk Score is **Significant**
4-6		Risk Score is **Moderate**
3 <		Risk Score is **Low**

Impact					
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		