



**Cloch Housing Association**

# **Risk Management Strategy Policy**

<b>Policy Name</b>	Risk Management Strategy
<b>Policy Category</b>	C-HR
<b>Policy Number</b>	020
<b>Date Adopted</b>	01/08/2013
<b>Last Review</b>	07/08/2018
<b>This Review</b>	04/02/2021
<b>Next Review</b>	February 2024
<b>Equalities Impact Assessment Required</b>	No
<b>Link to other policies</b>	Financial Regulations, Governance Procedures
<b>Consultation</b>	Not Required
<b>Need for Procedure</b>	No

## **CLOCH HOUSING ASSOCIATION**

### **RISK MANAGEMENT POLICY AND PROCEDURE**

#### **1.0 INTRODUCTION**

- 1.1 Cloch Housing Association recognises the importance of adopting a corporate approach to risk management. This Policy aims to also satisfy Standard 4 of the Regulatory Standard of Governance – *the governing body bases its decisions on good quality information and advice and identifies and mitigates risk to the organisations purpose.*
- 1.2 The purpose of this policy is to ensure that we achieve our stated business and strategic planning aims and objectives whilst reviewing the challenges and risks which may be encountered. We recognise that we will face all manners of risk.
- 1.3 Some risks are so minor as to be insignificant, whereas others have the potential to seriously affect our business's continued well-being. It is therefore important to understand the likelihood and the potential consequences of our own particular risks, and to take sensible, cost effective mitigation measures for the more significant ones.
- 1.4 Cloch recognises that we have a moral and statutory duty of care to our members, customers, employees and assets. It will meet this duty by ensuring that risk management plays an integral part in the day-to-day management of the business at a strategic and operational level. All employees must understand the nature of the risks and accept responsibility for these associated with their area of control and authority. The necessary support, assistance and commitment of the Board will be provided.

This policy describes Cloch's strategy for managing the risks inherent in its current and future activities and how these risks are controlled and monitored.

## **2.0 APPROACH TO RISK**

- 2.1 We recognise that the application of risk management practices will not eliminate all risk exposure. While the application of this policy should create a better understanding of the risks being faced and their implications for the business, there may be occasions where the risk is considered too high to proceed with a preferred course of action – this could include a high level of cumulative risk across all activities at a particular point in time.
- 2.2 The main aims and objectives of this Policy are to manage our risk effectively in order to achieve the following benefits:
- A more resilient business
  - Informed decision making
  - Protection of financial resources and assets (and reputation)
  - Improved service quality and reliability
  - Increased likelihood of achieving our strategic objectives in our Business Plan
- 2.3 Our Business Plan outlines what business activity we are involved in and as such all-risks link back to the strategic themes of the business. Integrating risk management into the way we deliver services is essential for the achievement of our vision and ambitions.

## **3. DEFINING RISK**

- 3.1 Every decision we make or action we take contains some element of risk. Risks arise when the vulnerabilities in our systems, processes, facilities or resources are exploited by or exposed to threats. Examples might include someone hacking into our systems as a result of IT security vulnerabilities, or a fire breaking out in areas where our detection systems have not been maintained, or errors made by untrained staff.

3.2 Table 1 shows the range of risks facing Cloch, and these are just examples.

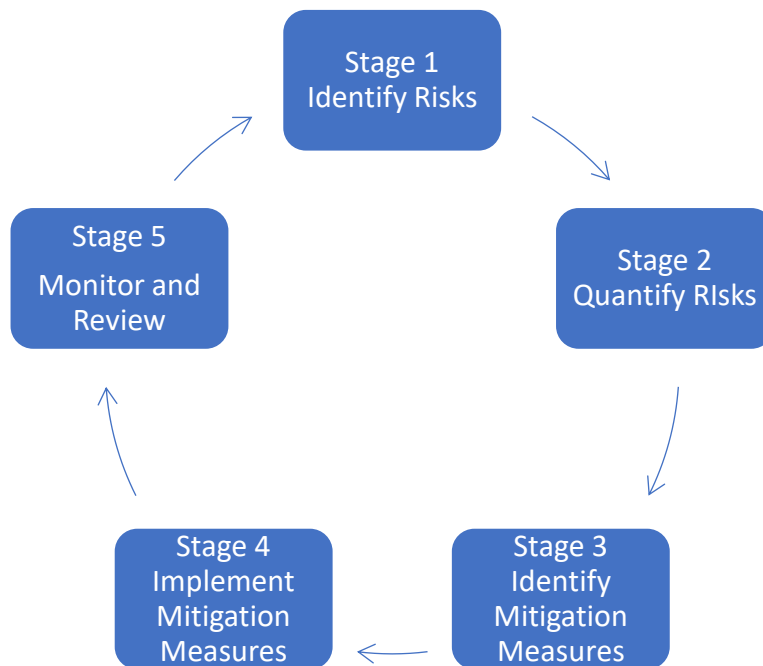
Table 1

Theft	Fire	Flood
Bad Debts	Computer Failure	Cyber Attack
Health & Safety Incident	Power Failure	Contractor Failure
Fraud	Negative Cash Flow	Insolvency
Litigation	Regulatory Breach	Pollution/Contamination
Economic Impact	Human Error	Breach of Contracts/Disputes

3.3 It is not possible to create a completely risk free environment, but what we can do is manage risk effectively. We can identify risks, quantify them and once we understand what we are up against we can make informed , considered decisions regarding what, if anything, to do about them.

#### 4.0 RISK MANAGEMENT PROCESS

4.1 There are five stages to our risk management process as detailed below:



## **Stage 1 – Identify Risks**

Before we can take any meaningful action to address our risks we need to know what we are up against. So, we need to identify the risks that we face.

## **Stage 2 – Quantify Risks**

Once we have identified our risks we need to quantify them. As the risks that we are really interested in are those we consider to be significant enough to do something about, we need to separate these out. We do this by assessing the likelihood of the risk occurring and the impact on the business if it does.

## **Stage 3 – Identify Mitigation Measures**

Once we know what risks are most serious we can start to deal with them by identifying possible mitigation measures – methods of removing, reducing, controlling or recovering from adverse events. Mitigations identified but not in place should be included in the actions until these are implemented.

## **Stage 4 – Implement Mitigation Measures**

Having determined which mitigation measures we feel are sensible and cost effective and decided which ones we implement, we proceed and manage these and add in any other mitigation measures not currently in place.

## **Section 5 – Review and Monitor**

To complete the process we must regularly monitor the effectiveness of the controls we have put in place.

### 4.2 Identifying Risks

We need to concentrate on the risks to the most important parts of our business and our assets. These could include:

**Strategic Risk**, such as those associated with:

- Business Plan and future direction
- Achievement of Strategic Objectives
- Business Growth
- Organisational and constitutional change and partnerships
- Litigation

**Operational Risk**, such as those associated with:

- Financial/Commercial
- Service Delivery
- Regulatory/Compliance
- Health and Safety
- Technology
- Human Resources
- Individual Projects

Having identified the most critical elements of our business, we can set about assessing the risks to them.

#### 4.3 Quantifying Risks

4.3.1 Our vulnerability to any particular risk is a combination of the likelihood of the risk materialising and the impact if it does. When determining this, we use a simple scale shown below:

<b>Score</b>	<b>Likelihood</b>	<b>Score</b>	<b>Impact</b>
5	Almost Certain	5	Catastrophic
4	Likely	4	Major
3	Possible	3	Moderate
2	Unlikely	2	Minor
1	Rare	1	Insignificant

When considering likelihood this can be based on statistical information but generally it is an experienced and sensible assumption.

4.3.2 Following scoring the likelihood and impact scores are multiplied together – for example, if a risk is possible (3) but the impact would be catastrophic (5) – the score would be 15. Understanding the overall risk rating allows us to consider which risks are significant enough to do something about. We will use the matrix below and also refer to Appendices 2 & 3 for definitions.

IMPACT	LIKELIHOOD					
		Rare (1)	Unlikely (2)	Possible (3)	Likely (4)	Almost Certain (5)
Insignificant (1)	1	2	3	4	5	
Minor (2)	2	4	6	8	10	
Moderate (3)	3	6	9	12	15	
Major (4)	4	8	12	16	20	
Catastrophic (5)	5	10	15	20	25	

### Overall Rating

Low
Medium
High

The risk rating and traffic light colour coding indicates the seriousness and priority for action for any given risks, and this is carried through to the risk registers.

#### 4.3.3 Our risk register details the following:

- Link to Strategic Objective
- Category of risk
- Description and impact of risk
- Risk owner
- Inherent risk score (before mitigation)
- Mitigation and control measures
- Residual likelihood of risk (after mitigation)
- Residual impact of risk (after mitigation)
- Residual risk score (after mitigation)
- Risk Score
- Movement since last review
- Additional Actions Required

4.3.4 We quantify risks both before and after mitigation in order to determine the effectiveness of the control measures in place. The pre mitigation risk is always scored on the assumption that nothing has been done or put in place as a starting point. This ensures consistency of scoring across the business.

#### 4.4 Mitigating Measures

4.4.1 In general terms, the responses to our risks can largely be divided into 4 categories. It should be noted that some risks may cross over into more than one box, however the ultimate aim is to select and implement measures that reduce the likelihood or impact (or both) to a level that Cloch is prepared to accept.

		LIKELIHOOD	
		Low	High
IMPACT	High	Insurance/ Contingency Planning	Reduce/Transfer risk
	Low	Accept	Manage

Accept – if the likelihood is low and the impact is low it may be a perfectly reasonable decision to do nothing and to accept certain risks. In addition, the fact that many risks cannot be completely eliminated means there is likely to be a level of residual risk remaining, even after implementing our mitigation measures. The ultimate aim of our risk management process is to reduce all of our risks to a level that we are willing to accept.

Manage – for risks with a low impact but a higher likelihood a sensible approach might be to manage and control them, for example by process improvement, training or putting in place controls and procedures to monitor the situation.



Insurance/Contingency Planning – if the likelihood is low but the impact is high (such as loss of operational capability, large financial losses or serious damage to the business, contingency plans should be developed and put in place. Our approach to contingency planning has resulted in other policies or plans being in place, for example disaster recovery plans, IT Strategy, Treasury Management Policy, etc. Where appropriate insurance is taken out to ensure there is cover should the risks materialise – public liability insurance, employer liability insurance etc.

Reduce/Transfer – for risks with a high likelihood and a high impact, reducing the risk is paramount. For example, hazardous or dangerous procedures should be removed or modified, monitored or outsourced to someone more qualified or better equipped to carry them out safely. This can also be achieved by taking out insurance for some areas, but consideration must be given to the non-financial aspects of risk.

#### 4.5 Implementing Mitigation Measures

- 4.5.1 Once the mitigation measures have been identified, it is crucial that the implementation of these are properly managed. This is done through the management of risk registers, which is a document which summarises the risks and opportunities identified, along with likelihood and impact (before and after mitigation), mitigation measures, actions taken and current status of these. The scoring of risks are shown as inherent (Gross) risk (with no mitigation put in place) and residual (net) risk (with mitigation measures put in place).
- 4.5.2 The risk registers are working documents regularly reviewed and updated. Within Cloch we have a Strategic Risk Register along with an Operational Risk Register for each function/department. We will also carry out enhanced individual risk registers/assessments for individual projects or complex areas.

#### 4.6 Monitoring and Reviewing

- 4.6.1 Additional actions will be recorded which might reduce the residual risk further and upon review, movement of this will be identified, including whether the risk has increased since last review. In addition, any new or emerging risks will be identified during this part of the process.
- 4.6.2 On a quarterly basis the Leadership Team will review and consider the existing and any new risks, and re-score accordingly on both the Strategic and Operational Risk Registers. Where risks have been either escalated or de-escalated this will be noted in the register.

## **5.0 RISK AWARENESS CULTURE**

5.1 The most successful organisations are those who embed risk management into their culture – where risks and associated mitigation measures are identified at all levels, where risk registers are maintained by the Leadership Team and overseen by the Board, and where risk management is seen by all employees as just a normal part of the way they do their jobs. To ensure this is the case, various groups of people with Cloch have various responsibilities:

### **5.1.1 Board**

- Support and oversee the Risk Management process
- Agree and set the Risk Management Policy
- Be aware of strategic risks facing the business
- Consider new and emerging risks and the Association's appetite in managing these
- Monitor effectiveness of the Policy and seek assurance on internal controls

### **5.1.2 Director**

- Establish , support and facilitate a robust Risk Management process
- Report on the status of key risks and mitigation measures, including escalation and de-escalation of risks to the Board
- Manage and review the Strategic Risk Register
- Ensure appropriate levels of awareness and involvement throughout the Association
- Report on the status of risks and mitigation measures to the Leadership Team.

### **5.1.3 Departmental Heads**

- Be aware of the risks within their particular function
- Apply the Risk Management Process to identify significant risks and implement or recommend mitigation measures on the Operational Risk Register, and contribute to the Strategic Risk Register as Leadership Team member
- Manage risks on a day to day basis and facilitate staff awareness
- Report on the status of risks and mitigation measures to the Leadership Team

#### 5.1.4 All Staff

- Understand role, responsibilities and accountabilities with the Risk Management process
- Identify and rate risks and suggest possible mitigation measures as they arise, either informally or formally via an Operational Risk Register.
- Detail risks as appropriate in Policies or when submitting reports to the Board.

## 6.0 THE ROLE OF INTERNAL AND EXTERNAL AUDIT

6.1 Both internal and external audit provides an independent examination and assessment of controls, assuring the governing body that these are operating effectively. While sharing some characteristics, internal and external audit have different objectives as outlined in the table below:

	<b>External Audit</b>	<b>Internal Audit</b>
Objectives	Add credibility and reliability to financial reports from the organisation to its stakeholders by giving an opinion on the report.	Evaluate and improve the effectiveness of governance, risk management and control processes. This provides members of the board and senior management with assurance that helps them fulfil their duties to the organisation and its stakeholders.
Coverage	Financial reports, financial reporting risks.	All categories of risk, their management, including reporting on them.
Responsibility for improvement	None, however, there is a duty to report problems.	Improvement is fundamental to the purpose of internal auditing. But it is done by advising, coaching and facilitating to not undermine the responsibility of management.

## APPENDIX 1 – RISK CATEGORIES

The following categories should be used as prompts to help identify potential areas of vulnerability or uncertainty:

<b>Risk</b>	<b>Definition</b>
<b>Political</b>	Associated with the failure to deliver either central or local government policies, or recognise their priorities; threats from new policies and legislation.
<b>Financial/ Economic</b>	Associated with financial planning and control. Affecting the ability of Cloch Housing Association to meet its financial commitments e.g. internal budgetary pressures, the failure to purchase adequate insurance cover, external macro-level economic changes e.g. market changes.
<b>Social/ Cultural</b>	Relating to the effects of changes in demographics, residential or socio-economic trends acting on Cloch Housing Association and our ability to respond and meet objectives.
<b>Technological</b>	Associated with the capacity to deal with the pace/scale of technological change, or Cloch Housing Associations' ability to use technology to address changing demands. This may also include the consequences of internal technological failures on Cloch Housing Association's ability to deliver its objectives.
<b>Compliance</b>	Related to possible non-compliance through breaches of legislation e.g. SORP non-compliance, illegality, non-compliance with regulatory requirements, with Health and Safety and/or non-adherence to Cloch Housing Association policies and procedures.
<b>Environmental</b>	Relating to the environmental consequences of progressing Cloch Housing Association objectives; energy and fuel efficiency issues; etc.
<b>Commercial</b>	Underperformance against contract specification leading to failure or inability to maintain provision; threats from the activities of competitors; partners change priorities.
<b>Client/ Customer</b>	Associated with failure to meet the current and changing needs and expectations of Cloch Housing Association tenants, clients and customers e.g. service quality; duty of care, or to expose Association staff or assets to unnecessary risk.

## APPENDIX 2 – RISK SCORING CRITERIA

Impact	Financial	Service Quality	Health & safety	Reputation
<b>5.Catastrophic</b>	Losses exceeding £750k	Complete failure of services	Fatality	Reputational damage is irrecoverable e.g. regulatory intervention
<b>4.Significant</b>	Losses £150K to £75K	Significant reduction in service quality experienced	Multiple serious injuries occurring	Reputational damage occurs with key stakeholders
<b>3.Moderate</b>	Losses £50K to £150K	Service quality impaired – changes in service delivery required to maintain quality	Serious injury	Reputational damage is uncomfortable for Cloch Housing Association – adverse press publicity
<b>2.Minor</b>	Losses £10K to £50K	Marginally impaired – slight adjustment to service delivery required	Minor injury	Slight reputational damage arising
<b>1.Slight</b>	Negligible cost – up to £10K	Negligible effect on service quality	No injury	No effects on reputation

Likelihood of occurrence				
1.Rare	2.Unlikely	3.Possible	4.Likely	5.Almost certain
0 – 20%	21 – 40%	41 – 65%	66 – 90%	91 – 100%

### APPENDIX 3 – RISK SCORING MATRIX

#### Impact

<b>5.Catastrophic</b>	5	10	15	20	25
<b>4.Major</b>	4	8	12	16	20
<b>3.Moderate</b>	3	6	9	12	15
<b>2.Minor</b>	2	4	6	8	10
<b>1.Insignificant</b>	1	2	3	4	5
<b>Likelihood</b>	1.Rare	2.Unlikely	3.Possible	4.Likely	5.Almost Certain