

### 1.0 INTRODUCTION AND PURPOSE OF POLICY

- 1.1 This Policy forms part of a suite of policies which define the financial rules and regulations operating within SBHA. This Policy is subordinate to the Association's Rules and Standing Orders.
- 1.2 The Policy explains SBHA's underlying approach to risk management, documents the roles and responsibilities of the Board, Audit & Compliance Committee, the Executive Management Team, and other key parties.

### 2.0 WHY WE NEED TO MANAGE RISK?

- 2.1 The focus on risk management as part of the process of good governance, effective business planning and safeguarding stakeholder assets takes account of the Scottish Housing Regulators Regulatory Standards of Governance and Financial Management.
- 2.2 The Regulator requires that SBHA has an effective risk management and internal controls assurance framework in place. We demonstrate this through the annual 'Internal Controls Assurance' approved by the Management Committee and included in the financial statements of SBHA. An effective risk management Policy is an integral part of this assurance and is crucial to support the statement. On that basis SBHA will continue to focus on embedding risk management throughout the organisation by putting in place a pro-active risk management framework
- 2.3 Risk Management is beneficial to SBHA as it:
- helps us to be more flexible and responsive to new internal / external demands;
  - helps SBHA make informed decisions;
  - provides assurance to the Committee, Management Team and Leadership Team;
  - reduces incidents and other control failures; and
  - helps in the achievement of SBHA's key targets and priorities
- 2.4 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. At a time when resources are limited it is especially important to reduce the number of unwanted surprises.
- 2.5 The framework for managing risk sets out the process through which risks will be identified, assessed, controlled, monitored and reviewed. The framework is designed to:
- Integrate risk management into the culture of SBHA;
  - Raise awareness of the need for risk management;
  - Encourage a positive approach to risk management;
  - Support improved decision making, innovation and performance, through a good understanding of risks and their likely impact; and
  - Manage risk in accordance with best practice.

### **3.0 DEFINITIONS**

3.1 A risk is defined as “The threat or possibility that an action or event will adversely affect an organisations ability to achieve its objectives”.

3.2 Risk Management is defined as “the process which aims to help SBHA 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”.

### **4.0 AIMS AND OBJECTIVES**

4.1 The aims and objectives of risk management are to:

- Provide continuous high quality services to the customers of SBHA.
- Use appropriate identification and analysis techniques to identify risks to SBHA 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 SBHA.
- Through the use of training and communication, develop and maintain a structured risk management culture, where risk is considered in the decision making process and the everyday working situations 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 SBHA.
- Report on and review the risk management Policy in accordance with best practice guidelines.

### **5.0 UNDERLYING APPROACH TO RISK MANAGEMENT**

5.1 The following key principles underlie SBHA’s approach to risk management and internal control:

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

## 6.0 ROLES AND RESPONSIBILITIES

### 6.1 The Role of the Board of Management:

The Board has a fundamental role to play in the management of risk, and is ultimately responsible for identifying and assessing risks associated with SBHA's activities and for overseeing a framework for the management of these risks, including approving this Policy. Specifically, it is to:

- Set the tone and influence the culture of risk management within SBHA. This includes:
  - determining whether SBHA 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 SBHA.
- Approve major decisions affecting SBHA's risk profile or 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 SBHA's approach to risk management, including the high level risk map, and approve changes or improvements to key elements of its processes and procedures.

### 6.2 The Role of the Audit and Compliance Sub-Committee:

The Audit and Compliance Sub-Committee has responsibility for overseeing the development, implementation and maintenance of appropriate risk management, on behalf of the Board, and in line with this Policy. Its role specifically is to:

- Monitor the management of high level risks
- Review the Risk Appetite of SBHA when appropriate and make recommendations to the Board.
- Review the high level risk map twice a year, and approve the scoring of these risk by the Executive Team
- Satisfy itself that all known risks are being actively managed, with the appropriate controls in place and working effectively

### 6.3 The Role of the Executive Team:

The Executive Team will ensure that SBHA manages risk systematically, economically and effectively through the development of an all-encompassing risk management Policy. It will:

- Support SBHA in the development, implementation and review of the risk management Policy.
- Share experience on risk, risk management and policy implementation across SBHA.

The responsibilities of the Executive Team are to:

- Acquire a knowledge of risk management and its benefits.
- Monitor, evaluate and update SBHA's Strategic Risk Register at least once a quarter
- Report to each meeting of SBHA Audit & Risk Committee on the status of risks and controls.
- Ensure risk management and its processes are disseminated and are embedded throughout SBHA
- Continuous development, promotion & implementation of risk management throughout SBHA.
- Preparation of relevant contingency plans in those areas that are considered high risk.
- To review any training requirements to enable the development & implementation of risk management.

The Finance Director will take overall responsibility for the administration and implementation of the risk management process

#### 6.4 The Role of the Leadership Team:

To manage risk in their own service area / department and:

- To review and update their risks at team meetings at least every quarter;
- To contribute to the development of risk management from a function specific perspective;
- To disseminate the detail of the Policy and allocate responsibilities for implementation of the Policy in each service area / department;
- To recommend the necessary training on risk management for the employees in the section;
- To share relevant information with other service areas / departments;
- To identify any risk management issues in their service area / department;
- To provide feedback to the Management Team on their experience of implementing risk management and their perceptions of the effectiveness of the approach; and
- To ensure that the Policy is implemented across their service areas / departments.

#### 6.5 The Role of SBHA's People:

All of SBHA's people have a duty to ensure that risk is managed effectively in their area. This includes engagement with colleagues through formal and informal processes. They also have a responsibility for identifying risks in performing their daily duties and taking action to limit the likelihood and impact of these risks.

6.6 **Appendix 1** presents a flow chart of the risk monitoring and escalation process.

### 7.0 RISK APPETITE

7.1 The success of SBHA is a result of effectively managing our key risks, which in turn support the achievement of our key targets and priorities. SBHA acknowledges that an element of risk exists in all activity it undertakes.

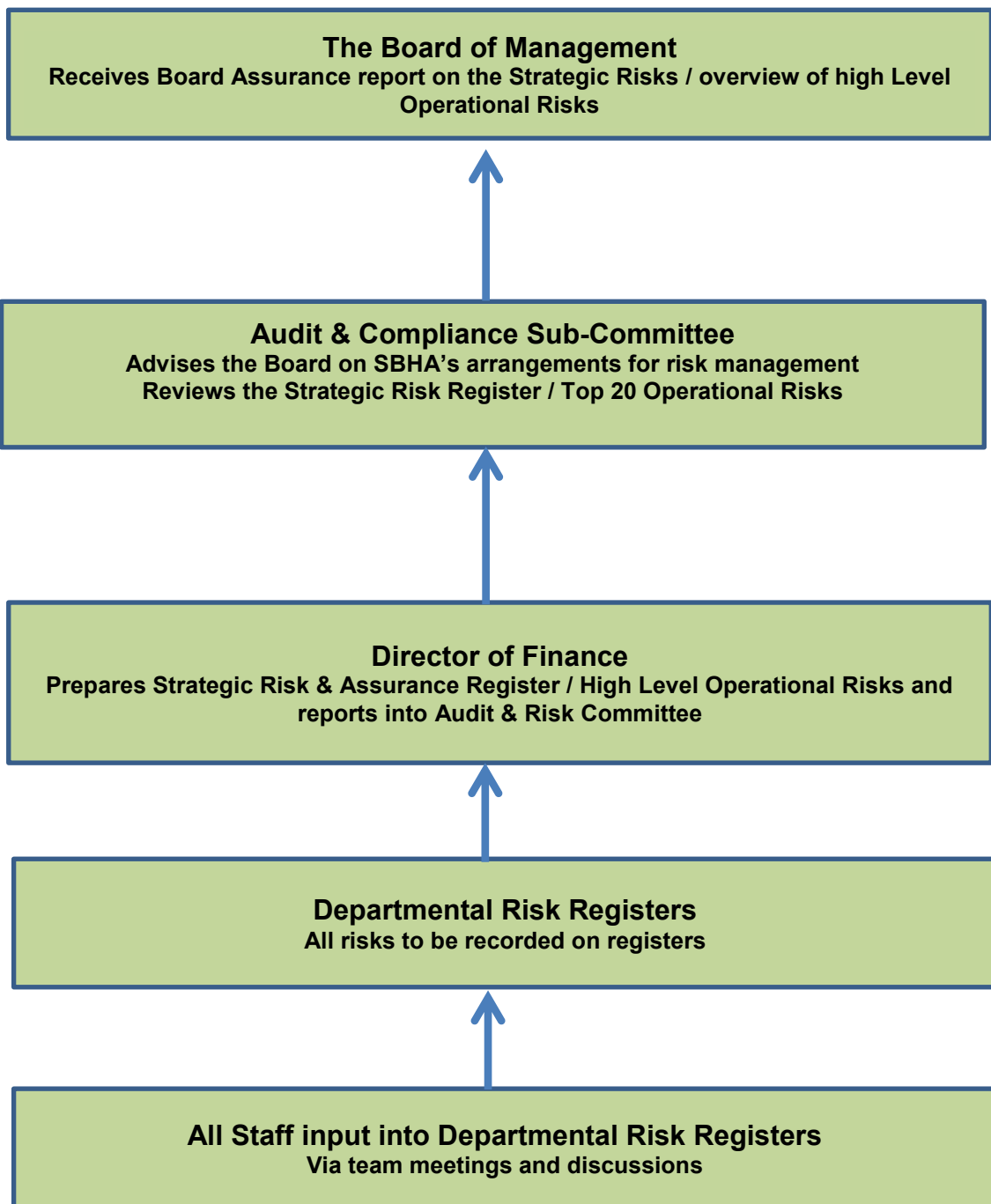
7.2 Risk appetite is defined as the amount of risk an organisation is prepared to tolerate or be exposed to, should the risk be realised. Too great a risk appetite can jeopardise a project or activity whilst too little could result in lost opportunity.

- 7.3 SBHA's risk threshold is when the risk Category is B after controls are applied ('Red' on the risk scoring methodology – see **Appendix 2**). Above this threshold, SBHA will actively seek to manage the risk and will prioritise time and resources to reducing, avoiding or mitigating these risks.
- 7.4 The Board will then agree the Risk Appetite (what level of risk is acceptable) for SBHA and the appropriate level of risk mitigation activity for each risk is this category.
- 7.5 A risk owner will be designated for each high level risk on the strategic risk register. Appropriate persons will be designated for all other risks. Risk owners will ensure that their action plan addresses the risks identified and will be required to monitor the status of their portfolio of risks at least once a quarter. Risk owners will be reviewed at least on an annual basis.

## **8.0 POLICY REVIEW**

- 8.1 This Policy will be reviewed after 3 years, or earlier if legislative or other changes necessitate this.

## APPENDIX 1 - Risk Management Reporting and Escalating



**APPENDIX 2 – Risk Matrix and Scoring Criteria**

RISK	Likelihood				
Impact	1	2	3	4	5
	Rare	Unlikely	Possible	Likely	Almost Certain
<b>5 Major</b>	15	19	22	24	25
<b>4 Significant</b>	10	14	18	21	23
<b>3 Moderate</b>	6	9	13	17	20
<b>2 Minor</b>	3	5	8	12	16
<b>1 Negligible</b>	1	2	4	7	11

Risk Scores	Overall Risk Rating	Review
20 - 25	A	Monthly
15 - 19	B	Quarterly
11 - 14	C	Every 3-6 Months
7 - 10	D	Every 6-9 Months
1 - 6	E	Every 12 Months

**APPENDIX 2, ANNEX i – Criteria for ‘Likelihood’ Scoring**

Rating	Rating Scale	Likelihood	Percentage	Example of Loss Event Frequency
RARE	1	This will probably never happen/recur.	0-5%	10 years or less frequently
UNLIKELY	2	Do not expect it to happen/recur, but it is possible it may do so	5-10%	Once every 5 years
POSSIBLE	3	Might happen/recur occasionally	10-25%	Once every 2 years
LIKELY	4	Will probably happen/recur but is not a persisting issue	25-75%	Annually
ALMOST CERTAIN	5	Will undoubtedly happen/recur, possible frequently	75-100%	At least annually

## APPENDIX 2, ANNEX ii – Criteria for ‘Impact’ Scoring

Rating	Rating Scale	Safety	Reputation	Media attitude	Scottish Housing Regulator	Legal Action	Colleague	Criminal	Direct Loss	Regulatory / Industry Status	Service Quality
<b>NEGLIGIBLE</b>	1	No risk of injury. H&S compliant.	Tenants not impacted or aware of a problem	No adverse media or trade press reporting.	High compliance standards recognised.	Unsupported threat of legal action	Minimal effect on Colleague.	High control standards maintained and recognised.	Between 0-£1,000	No or little change to regulation in recent history/ near future.	Negligible effect on service quality
<b>MINOR</b>	2	Small risk of minor injury. H&S policy not regularly reviewed.	Some Tenants aware of the problem, but impact on is minimal.	Negative general Housing Association article of which SBHA Housing is mentioned	Verbal comments received	Legal action with limited potential for decision against	Potential for additional workloads intruding into normal non-working time.	Attempted unsuccessful access to operational systems; minor operational information leaked or compromised.	Between £1,000 and £10,000	Limited recent or anticipated changes	Marginally impaired – slight adjustment to service delivery required
<b>MODERATE</b>	3	High risk of injury, possibly serious. H&S standards insufficient / poor training.	A number of Tenants are aware and impacted by problems.	Critical article in Press or TV. Public criticism from industry body.	Findings in written examination report. Potential SHR intervention	Probable settlement out of court	Increase in workloads. Intrusion into normal non-working time.	Logical or physical attack into operational systems.	Between £10,000 and £50,000	Modest changes recently or anticipated	Service quality impaired – changes in service delivery required to maintain quality
<b>SIGNIFICANT</b>	4	Serious risk of injury possibly leading to loss of life. H&S investigation resulting in investigation and loss of revenue.	Significant disruption and or Cost to Tenants / third parties.	Story in multiple media outlets and/or national TV main news over more than one day.	Multiple or repeat governance failings results in SHR intervention	Law suit against for major breach with limited opportunity for settlement out of court	Significant injuries, potential death.  Major intrusion into Colleague's time.	Police investigation launched; operational data or control systems may be compromised.	Between £50,000 and £300,000	Potential intervention by lead regulator. Significant changes to industry	Significant reduction in service quality experienced
<b>MAJOR</b>	5	Potential to cause one or a number of fatalities. H&S breach causing serious fine, investigation, legal fees and possible stop notice.	Tenants / Third parties suffer major loss or cost.	Governmental or comparable political repercussions. Loss of confidence by public.	Action brought against SBHA Housing for significant governance failings Forced merger	Action brought against SBHA Housing for significant breach.	Deaths and/or major effect on Colleague lives.	Major successful fraud; prosecution brought against SBHA Housing and Exec for significant failure; Systems totally compromised.	Over £300,000	Major complex changes to industry Intervention on behalf of the Lead regulator	Complete Failure of Services

### APPENDIX 3 – Risk Management Reporting Cycle

The table below sets out the risk management reporting cycle:

Risks	Board of Management	Audit & Compliance Sub-Committee	Leadership Team
Policy and Annual Review	Every 3 Years	n/a	n/a
SBHA's top 20 Strategic Risks	Annually	6-monthly	n/a
Operational risks which are classified as A	Each meeting	Each meeting	Team Meetings Monthly
Operational risks which are classified as B	Each meeting	Each meeting	Team Meetings - Quarterly
Operational risks which are classified as C	n/a	3-6 Months	Team Meetings every 3 months
Operational risks which are classified as D	n/a	Annually	Team Meetings every 6 months
The remaining operational risks that are classified as E	n/a	Annually	Annually

## APPENDIX 4 – Glossary of Terms

<b>Assurance</b>	An opinion based on evidence gained from the review of SBHA's governance, risk management and control framework that risk assessments and control responses are appropriate, adequate and achieving the effects for which it has been designed.
<b>Cause</b>	The reason for the risk exposure – why would a risk occur
<b>Effect</b>	The impact for the risk exposure – what would be the impact if the risk materialised
<b>Exposure</b>	The consequences that arise from the realisation of a risk.
<b>Inherent risk priority</b>	The classification SBHA gives to a risk, based on its likelihood and potential impact and BEFORE the application of a risk response and controls.
<b>Impact</b>	The effect that a risk would have on us if it occurred.
<b>Likelihood</b>	The probability of a risk occurring.
<b>Risk Owner</b>	The person responsible for ensuring the risk is properly managed and monitored
<b>Residual risk priority</b>	The classification given to a risk AFTER taking into account the quality of risk responses and controls.
<b>Risk</b>	The threat or possibility that an action or event will adversely or beneficially affect an organisations ability to achieve its objectives.
<b>Risk appetite</b>	The level of risk SBHA is prepared to accept or tolerate before considering action necessary.
<b>Risk assessment</b>	The process by which SBHA identifies and assesses the risks associated with its activities within each level of SBHA.
<b>Risk management</b>	“Risk Management is the process which aims to help SBHA 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”.
<b>Risk register</b>	A document for capturing important information about each risk SBHA identifies.
<b>Risk response</b>	An action or process that SBHA currently has in place to either reduce a risk to an acceptable level or increase the probability of a desirable outcome