



**RISK CONTROL POLICY AND PROCEDURE
SEPTEMBER 2015**

Policy Owner	Chief Executive - Keith Anderson
Applicable to	Group, PoLHA and all subsidiaries
Approved by OMT	August 2015
Approved By SMT	August 2015
Approved By Audit Committee	8 September 2015
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Methods for raising awareness & training users about the content of this document	<ul style="list-style-type: none"> • Reviewed and signed off by OMT & SMT members before submission to Audit Committee for final approval. • Will be formally issued to OMT & SMT members once approved. Training was given to all SMT and OMT members during August 2015. • Will be included in induction packs for new SMT and OMT members.
The document has a direct link to the following PoLHA policies and procedures	Financial Regulations Para 37.1 (Risk Management) "The Audit Committee is responsible for developing a risk management strategy*", in line with any requirements of the regulator. A risk register shall be maintained and reports provided to the audit committee" *note this will be changed from "strategy" to "policy"
This policy complies with the requirements of these legal and/or regulatory documents	Scottish Housing Regulator requirements Standard 4 within the Regulatory Standards of Governance & Financial Management - Para 49-53 (managing risk) within the Regulatory guidance consultation on Group Structures and Constitutional Partnerships (Feb 2015)
Equality Impact Assessment Status (EIA)	<ul style="list-style-type: none"> • EIA carried out by Head of Corporate Service and record lodged. • Policy adjudged to have no impact relating to the Management of equality and diversity issues.

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BUSINESS RISK CONTROL POLICY

1 RISK MANAGEMENT POLICY STATEMENT

The Association is committed to maintaining the long term health of the organisation in terms of financial stability, management of resources and the quality of service provision. The Association recognises that risk is an inevitable part of our work. However we will seek to proactively identify, understand and manage risk to encourage a responsible and informed approach to risk. Effective risk management optimises the balance between risk and control.

2 ROLES AND RESPONSIBILITIES

The table below details the roles and responsibilities of key stakeholders in the Risk Control Processes

Stakeholder/s	Role, Accountabilities and Responsibilities
<i>PoLHA Group Board & each subsidiary's Board</i>	Ensure a policy and associated procedures which are fit for purpose, is in place so that the PoLHA management are held to account for following these.
<i>Group Audit Committee</i>	Accountable for reviewing Corporate Risk Register and giving sign off to documented risks and treatments and ensuring agreed risk controls are put in place and effective.
PoLHA Senior Management Team (SMT)	The SMT are accountable for ensuring the processes detailed in this document are resourced and carried out effectively by operational management and staff. SMT members are responsible for ensuring they contribute effectively to the processes required to identify and analyse risks and recommend appropriate risk treatments.
PoLHA Operational Managers	Operational managers will be accountable for carrying out reviews of risk of which they are allocated ownership. They will also be held accountable for developing and implementing mitigation controls and actions delegated to them by members of the SMT and/or Board. Operational managers will be responsible for participating effectively in the processes required to identify and analyse risks and recommend appropriate risk treatments as directed.
PoLHA Staff	All staff will be responsible for the processes required to identify and analyse risks and recommend appropriate risk treatments as directed.

3 RISK CONTROL FRAMEWORK

3.1 Principles

There are three important principles for assessing risk:

1. Ensuring that there is a clearly structured identification and analysis process in which both likelihood and impact are considered for each risk;
2. Recording the assessment of risk in a way which facilitates monitoring and the identification of risk priorities;
3. Being clear about the difference between inherent and residual risk

3.2 Glossary of Terms

Term	Definition
Accountable	The accountable person is the individual who is ultimately answerable for the activity or decision.
Assurance	An evaluated opinion, based on evidence gained from review, on the organisation's governance, risk management and internal control framework.
Exposure	The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.
Hazard	Any source of potential damage, harm or adverse effects on something or someone under certain conditions.
Horizon Scanning	Systematic issue/hazard identification activity designed to inform, as early as possible, about indicators of changes to risks which may be arising due to changes in the operating environment.
Inherent Risk	<ol style="list-style-type: none">1. A risk which it is impossible to manage or transfer away.2. The risk that exists when no controls have been put in place.
Residual Risk	The exposure remaining from a specific issue/hazard after action has been taken to manage it and making the assumption that the action is effective.
Responsible	The responsible person is the individual(s) who actually completes the task, responsible for action/implementation. Responsibility can be shared. The degree of responsibility is determined by the individual with the "Accountability"

Term	Definition
Risk	An event which may happen which may have a positive or negative effect on achieving a planned output or outcome.
Risk Appetite	The amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time without taking action to manage.
Risk Assessment	The evaluation of risk with regard to the likelihood of a risk being realised and the impact if the risk is realised.
Risk Management	All the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress.
STEP analysis	Analysis of Sociological, Technical, Economic / Environmental / Ethical, Political issues
SWOT analysis	Analysis of Strengths, Weaknesses, Opportunities, Threats

3.3 Classification Approach

The following headings will be used to classify types of risks:

- **Strategic risk** – those risks that impact on the achievement of long term strategic objectives and may include the following sub categories:
 - Diversification
 - Regulation
 - Reputational
 - Growth
 - Demand
 - Competition
 - Financial
- **Change / project risk** – those risks that impact on the delivery of a project
- **Operational risk** – those risks that impact on the achievement of annual objectives and may include the following sub categories:
 - Health and safety
 - Business Continuity

3.4 Scoring Method

Once risks have been identified, consideration must be given to the likelihood of the risk occurring and its impact on the organisation, both financial and non-financial. This scoring should take place before consideration of any mitigating control actions i.e. this should be the score for the untreated risk.

Likelihood: This assessment is based on a judgement of how likely it is that the risk will happen.

Impact: This measurement scores the significance of damage to the organisation were the risk to occur.

Exposure The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.

The scales in the tables below are those that will be used to score risks and classify the exposure level the risk causes the organisation.

Likelihood:

Score	Criteria
1	Unlikely to occur – rare event
2	A small likelihood of occurring
3	Moderately likely to occur
4	Likely to occur
5	Highly likely to occur – almost certain

Impact:

Score	Criteria
1	Insignificant impact on the organisation/objective
2	Moderate impact on the organisation/objective
3	Significant impact on the organisation/objective
4	Major impact on the organisation/objective
5	Catastrophic impact on the organisation/objective

Exposure:

Exposure score will be achieved by the use of the following equation:

$$\text{Likelihood score} \times \text{impact score} = \text{exposure score}$$

The exposure score will then be used to identify from the table below the exposure level.

Score	Exposure Level
1 – 6	Low
8 - 12	Moderate
15 - 25	High

The level of exposure and the defined risk appetite of the organisation are the two criteria which define those risks which need either to be controlled or have contingency plans established to manage them.

3.5 Risk Appetite

A convenient method of visually segregating risks which require action from those which should be accepted with no action is to plot them using the likelihood/impact scores on a risk analysis grid (risk map) as shown below.

I M P A C T	Catastrophic	5	LOW	MODERATE	HIGH	HIGH	HIGH
	Major	4	LOW	MODERATE	MODERATE	HIGH	HIGH
	Significant	3	LOW	LOW	MODERATE	MODERATE	HIGH
	Moderate	2	LOW	LOW	LOW	MODERATE	MODERATE
	Low	1	LOW	LOW	LOW	LOW	LOW
			1	2	3	4	5
			<i>Rare</i>	<i>Unlikely</i>	<i>Moderate</i>	<i>Likely</i>	<i>Almost certain</i>
			LIKELIHOOD				

PoLHA will accept all untreated risks which fall into the “LOW” exposure level category.

PoLHA will consider all risks which fall into the “MODERATE” exposure level category and record the rationale for a decision to tolerate risks in this category.

PoLHA will treat all risks falling into the “HIGH” exposure level category using the risk treatment approaches detailed in the section below.

3.6 Risk Treatment

Only risks adjudged to be not acceptable, ie those which are in the “MODERATE” AND “HIGH” exposure categories, will be treated.

Having, through the risk identification and analysis processes, identified risks which will not be accepted by the organisation, treatment of these risks to control them need to be established and implemented.

There are five approaches that PoLHA will use to treat risks:

Mitigation

Mitigation is about taking action to reduce the likelihood and/or the impact on the organisation/objective prior to the point in time when the risk event happens.

Avoidance

Avoidance is choosing to either stop doing something which has risks attached to it or decide not to do something which has risks attached to it.

Transfer

Transfer is about shifting risk from one party to another, usually through an insurance policy - to take a specific risk, which is detailed in the insurance contract, and pass it from one party who does not wish to have this risk (the insured) to a party who is willing to take on the risk for a fee, or premium (the insurer).

Contingency

A contingency based approach is about having a resourced plan in place to implement in the event that an identified risk event occurs, which will manage the impact of the risk after it has happened.

Acceptance

Acceptance is about accepting that the risk is low and unavoidable and that all reasonable mitigating factors have been actioned.

3.7 Risk Treatment Approach

Wherever it is possible and practical by taking mitigating action in advance of the point in time where a risk may occur to lessen either the likelihood or impact of an occurrence of a risk PoLHA will seek to do so.

Once mitigation actions/controls have been identified then the risk will be re-scored in its treated state to ensure the exposure reduction is worth investing the cost of implementing actions/controls.

There will be risks identified for which applying mitigation actions/controls are either impossible or not cost effective in which case developing a contingency plan or tolerating the risk will be the options which will be used:

Tolerance

Tolerance is about accepting the risk as it is unavoidable and that all reasonable mitigating factors have been actioned, despite the fact it is within the moderate or high category.

Decisions about whether mitigation, contingency, tolerance or a combination of approaches are taken will be made at the appropriate management levels dependant on whether risks are strategic or operational.

Avoidance and/ or transfer as approaches will always be considered where risks fall into the "HIGH" exposure category and the impact of an occurrence is adjudged during risk analysis to be scored as "catastrophic". In these cases if avoidance or transfer is not possible, or not chosen, a note of the rationale for selecting another treatment approach will be documented for audit purposes.

3.8 Recording Key Risk Control Information

The following information should be recorded from all risks assessed in a Risk Register for PoLHA and each subsidiary.

- Risk ID and link to business objective
- Risk owner
- Risk cause/hazard
- Risk description
- Risk consequence
- Risk classification
- Likelihood, impact and exposure scores (untreated – before mitigating control action)
- Mitigation controls and who is responsible for operating the control
- Residual likelihood, impact and exposure scores (treated - after mitigating control action)
- Agreed treatment

The risks should then be mapped, before and after mitigating controls into a risk map (see section 3.5).

BUSINESS RISK CONTROL PROCEDURE

4 RISK CONTROL SYSTEM

4.1 Overview

Risk control in PoLHA will be a continuously running set of business management process which will be dynamic in their nature.

Laid out below are the various elements which make up the Risk Control System

1. Annual STEP and SWOT Analysis Process
2. Annual Risk Review, Analysis and Sign Off Process
3. Quarterly Risk Checking and Updating Process

These elements are described in more detail in the sections below

4.2 Annual STEP and SWOT Analysis Process

As part of the preparation for the annual review of the business plan, the management and staff of PoLHA will contribute through team meetings to an analysis of the operational environment of the organisation and condition of the organisation in relation to its ability to deliver its objectives.

This is done using the well established STEP and SWOT analysis tools.

This process is used to highlight hazards, events and situations which are known at the point in time of the analysis which are currently, or will be, in the plan period under review, affecting the organisation either by way of opportunity or threat.

A record of the STEP and SWOT analysis will be documented and submitted to the PoLHA Group Board & each subsidiary's Board for noting at an appropriate meeting or awayday event.

4.3 Annual Risk Review, Analysis and Sign Off Process

The items identified in the STEP and SWOT analysis process are then analysed to identify the risks they cause to the ability of the organisation to deliver its services or objectives in the way planned.

The existing risks logged in the organisation's risk register will be reviewed by managers and staff to ensure they represent a list of risks still applicable to the business and relate to the items identified in the STEP and SWOT analysis process.

Managers and staff will, during this process, identify through discussion and debate at team meetings as many risks as possible which the organisation realistically faces.

Identified risks will be logged on one of the following registers:

- The live risk register (for new risks identified in the current year)
- The live project risk register (for risks identified for any live projects)

- The risks under management register (for risks that have been identified in previous years that are still under management, this would include all risks managed by H&S and business continuity)

Management and staff will analyse logged risks through discussions at team meetings and reach agreement on scoring of likelihood and impact of risks using the agreed PoLHA methodology.

Management and staff will also propose treatment approaches for those risks which fall into the “MODERATE” and “HIGH” exposure categories and, where mitigation is used, will re-score treated risks showing how mitigation actions affect the risks identified.

The information gathered will be collated into a single Corporate Risk Register document and submitted to the Group Audit Committee for review and sign off.

The signed off Risk Register will be submitted to the PoLHA Group Board & each subsidiary’s Board for noting at the next available meeting.

4.4 Quarterly Risk Checking and Updating Procedure

Risks logged in the PoLHA & subsidiaries Risk Registers will be reviewed quarterly by the risk owner and the outcome of the reviews reported to the next available meeting of the Group Audit Committee.

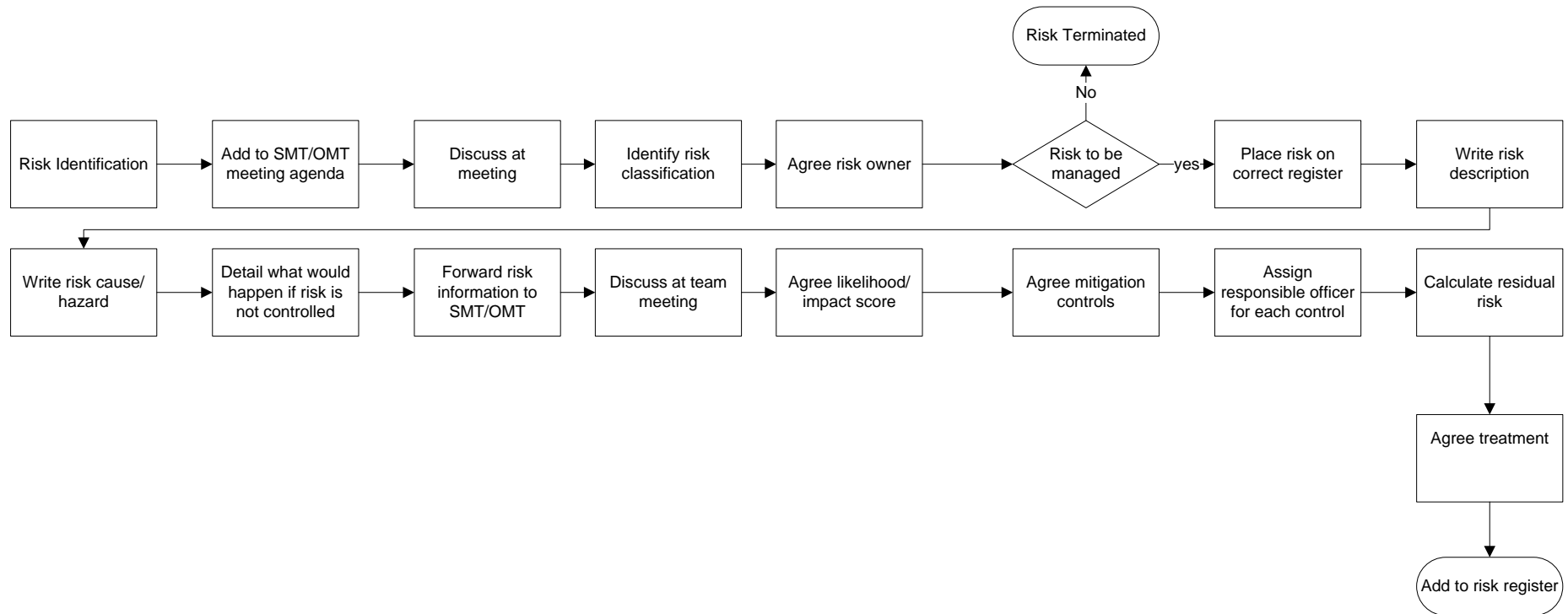
5 RISK CONTROL SYSTEM TIMETABLE

ACTIVITY	TIMESCALE	RESPONSIBILITY	OUTCOME
Annual STEP and SWOT Analysis Process and Reporting	June - September	Senior Management Team	Up to date STEP and SWOT Analysis record signed off by PoLHA Group Board & each subsidiary’s Board
Annual Risk Review, Analysis and Sign Off Process	October - November	Senior Management Team	Revised and updated Risk Register signed off by Group Audit Committee and reported to PoLHA Group Board & each subsidiary’s Board
Refresh of Risk Management section of Business Plan and finalisation of risk action plans	November - January	Senior Management Team	Draft Business Plan, Budget, Risk Map approval sought from PoLHA Group Board & each subsidiary’s Board
Carry out Quarterly Risk Reviews for all risks on register	January, April, July, October	Risk Owners	Updated Risk Register

ACTIVITY	TIMESCALE	RESPONSIBILITY	OUTCOME
Add any new risks identified since last review (from Project PIDs, appraisals or other strategies / policies)	January, April, July, October	Risk Owners	Updated Risk Register
Report Quarterly Risk Reviews	December, March, June, September	Director of Finance	Risk Review Reports signed off by Group Audit Committee

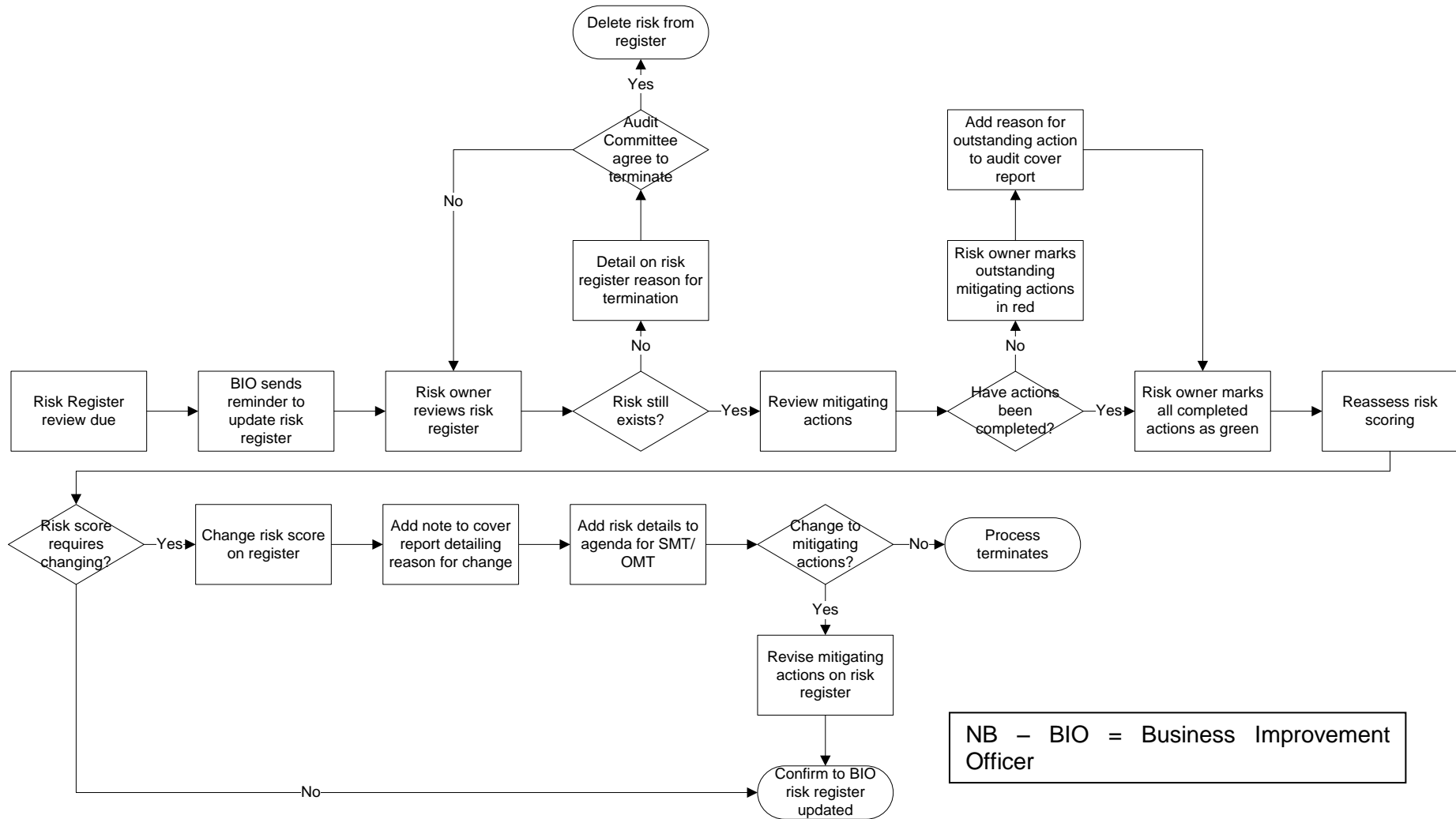
Appendix 1

RISK IDENTIFICATION PROCESS



Appendix 2

UPDATING RISK REGISTER



Appendix 3 –Risk Register Template with an example of a risk

Ref	SMT Risk Owner	Issue / Hazard Causing Risk	Risk Description	Risk Consequences (<u>effect</u>)	Classification	Scores <u>before</u> mitigating control action:			Existing Mitigating Controls	Control Owner(s)	Residual scores <u>after</u> mitigating control action:			Agreed treatment of residual risk
						Likelihood	Impact	Risk Exposure (LxI)			Likelihood	Impact	Risk Exposure (LxI)	
		<i>If this hazard is present:</i>	<i>This risk <u>may</u> occur:</i>	<i>In which case the effect <u>will</u> be:</i>		<i>Of risk</i>	<i>Of effect</i>		<i>To reduce likelihood and/or effect</i>					
1	KA	Some of the Association's policies and procedures are overdue for review and therefore not up to date and policies and some procedures are complicated and difficult to follow	PoLHA <u>may</u> breach SHR rules	<p>Move to high engagement with SHR</p> <p>Allows Banks to renegotiate terms of existing loans resulting in significantly higher costs.</p> <p>Banks decide to call in loans making PoLHA insolvent.</p> <p>Co-opted placed on Board and downstream disciplinary action to senior staff and Board members.</p> <p>PoLHA is forced to transfer engagements to another RSL and therefore loses identity and local focus (in extreme cases</p>	St	3	4	15	None	KA/MB	3	4	15	<p>Put policy review schedule in place and implement</p> <p>Identify key policies and organise awareness session for key stakeholders</p>