Risk Management Policy

June 2024

Northern Ireland Local Government Officers' Superannuation Committee

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Northern Ireland Local Government Officers' Superannuation Committee

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1 Introduction

1.1 Risk management is an integral part of NILGOSC's strategic planning, management and decision-making. The Accounting Officer, supported by the Board, is responsible for ensuring that there are robust governance, risk management and internal control arrangements across the organisation. As set out in DAO (DFP) 10/12 *'Requirement to Complete a Governance Statement'*, Accounting Officers are required to complete a Governance Statement for inclusion in the Annual Report and Accounts, which should provide an evaluation of how well these arrangements have operated in practice. The Governance Statement provides assurance that the control systems underpinning all activities across the organisation are effective. A key element to providing such assurance is the effective implementation of a risk management framework across the organisation.

1.2 The purpose of this Risk Management Policy is to define NILGOSC's risk management framework and to describe the processes in place for the identification, assessment, management and monitoring of risks facing the organisation. It has been developed and updated in accordance with recommended best practice and in particular takes account of the principles and approach set out in the following guidance:

- *Corporate Governance in Central Government Departments: Code of Practice NI 2013* – DFP 2013 (DAO 06/13)
- *Good Practice in Risk Management* – Northern Ireland Audit Office, 2011
- *A Structured Approach to Enterprise Risk Management* - Institute of Risk Management (IRM), 2010
- *The Orange Book* – Management of Risk, Principles and Concepts' – HM Government, 2023
- *Code 14: Governance and administration of public service pension schemes* – The Pensions Regulator (TPR), 2015
- Risk Appetite Guidance Note – HM Government Finance Function, 2021

2 The Risk Management Framework

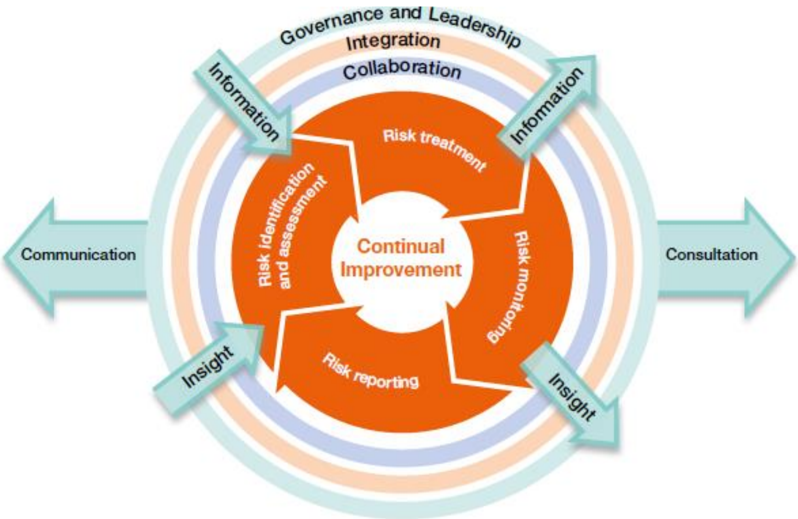
2.1 HM Government defines a risk as *'the effect of uncertainty on objectives' and risk management as 'the co-ordinated activities designed and operated to manage risk and exercise internal control within an organisation'.* At its most effective, risk management is as much about evaluating the uncertainties and implications within options as it is about managing impacts once choices are made. It is about being realistic in the assessment of risks to projects and programmes and in the consideration of the effectiveness of actions taken to manage these risks.

2.2 In order to ensure this type of effective risk management, NILGOSC has a risk management framework in place that supports the consistent and robust identification and management of risks within the agreed levels of risk appetite across the business, supporting openness, challenge, innovation and success in the achievement of objectives. The framework applies the following main principles as set out by HM Government in *The Orange Book* (2023):

a. Risk management shall be an essential part of governance and leadership, and fundamental to how the organisation is directed, managed and controlled at all levels;
b. Risk management shall be an integral part of all organisational activities to support decision-making in achieving objectives;

c. Risk management shall be collaborative and informed by the best available information and expertise.
d. Risk management processes shall be structured to include:
    i. risk identification and assessment to determine and prioritise how the risks should be managed;
    ii. the selection, design and implementation of risk treatment options that support achievement of intended outcomes and manage risks to an acceptable level;
    iii. the design and operation of integrated, insightful and informative risk monitoring; and
    iv. timely, accurate and useful risk reporting to enhance the quality of decision-making and to support management and oversight bodies in meeting their responsibilities. Risk management shall be continually improved through learning and experience.
e. Risk management shall be continually improved through learning and experience.

2.3 The risk management framework is illustrated in the following diagram:



3 Link to NILGOSC's Objectives

3.1 Effective risk management enhances strategic planning and prioritisation, assists in achieving objectives, and strengthens the ability to be agile to respond to the challenges faced. Therefore, risk management is an essential and integral part of NILGOSC's strategic planning and decision making.

3.2 NILGOSC's Mission Statement is '*To operate the pension scheme efficiently and effectively while enhancing the quality of service provided to stakeholders*.' In order to achieve this, there are a number of corporate aims and objectives which are set out in NILGOSC's Corporate Plan, including Corporate Aim 5 'To undertake business in an efficient, effective and accountable manner as required of a public body'. Part of this Aim requires NILGOSC to 'Maintain a Risk Register and take actions to mitigate identified risks'. The Corporate Plan is produced on an annual basis and covers a rolling three-year period.

3.3 The risk review process forms an important part of the corporate planning process as it helps to identify progress against objectives and highlight those areas where further action is required to reduce the level of risk within the organisation.

4 Risk Appetite

4.1 Risk appetite is the amount of risk that an organisation is willing to seek or accept in the pursuit of its strategic objectives. It also takes account of the adequacy of the controls in place to manage the risk.

4.2 NILGOSC reviews and assess its risk appetite annually as part of the annual review of the risk register. It considers its strategic risks under the broad categories of investment, financial, reputational, political/strategic, compliance and operational. It assessed its risk appetite in relation to each of these categories using HM Treasury's classifications set out in the table below:

Classification	Definition
Eager	Eager to be **innovative** and to choose options based on maximising opportunities and potential higher benefit even if those activities carry a very high residual risk.
Open	Willing to consider **all** options and choose one most likely to result in successful delivery while providing an acceptable level of benefit. Seek to achieve a balance between a high likelihood of successful delivery and a high degree of value for money. Activities themselves may potentially carry, or contribute to, a high degree of residual risk.
Cautious	Preference for **safe** delivery options that have a **low degree of inherent risk** and only limited potential for benefit. Willing to tolerate a degree of risk in selecting which activities to undertake to achieve key deliverables or initiatives, where we have identified scope to achieve significant benefit and/or realise an opportunity. Activities undertaken may carry a high degree of inherent risk that is deemed controllable to a large extent.
Minimalist	**Preference for very safe business delivery options** that have a **low degree of inherent risk** with the potential for benefit/ return not a key driver. Activities will only be undertaken where they have a low degree of inherent risk.
Averse	**Avoidance of risk** and uncertainty in achievement of key deliverables or initiatives is key objective. Activities undertaken will only be those considered to carry virtually no inherent risk.

Source: Risk Appetite Guidance Note – HM Government Finance Function, 2021

4.3 The risk appetite is set for each category although it was recognised that not all risks that fall within these categories will always have the same risk appetite.

4.4 Overall, the review determined that NILGOSC has an open/cautious appetite to risk taking, with the exception of compliance risks, where its appetite is risk averse. The outcome of the review in respect of each of the categories is summarised in the table below:

Risk category	Risk appetite
Investment	**Open** – NILGOSC recognises that risks also present opportunities. NILGOSC has significant investments in return seeking assets which are riskier than other asset classes, such as cash or bonds. NILGOSC is willing to take this risk in order to maximise the returns on its investments although it does manage the risk through diversification and investment monitoring.
Financial	**Cautious** – Solvency of the fund and the sustainability of the Scheme is the key to protecting members' interests. NILGOSC has made prudent assumptions through the fund valuation with a view to maintaining the solvency of the fund over the longer term and ensuring that sufficient resources will be available to meet all liabilities as they fall due.
Reputational	**Cautious** – It is common for the pensions industry and the public sector to have a cautious reputational risk appetite in order to maintain credibility as a pension provider and the confidence of its stakeholders in the security of their pension benefits.
Political/strategic	**Open** – NILGOSC is unique as a non-departmental public body as it is not funded by government but is still bound by Departmental requirements. NILGOSC is willing to consider all options to ensure that the best interests of its members are served by both Government and Departmental policies and strategies and will seek to be proactive in this area through engagement with officials and consultation.
Compliance (legal/regulatory)	**Averse** – NILGOSC aims to adhere to the highest standards of governance when conducting its business and has no tolerance for non-compliance with statutory and other regulatory requirements. It has a suite of policies and procedures in place to ensure compliance and these are reviewed and updated in line with best practice on a regular basis.
Operational	**Open –** NILGOSC's vision is *'to provide an excellent and sustainable pension scheme'* and its mission is *'to operate the pension scheme efficiently and effectively while enhancing the quality of service provided to stakeholders'*. In seeking to enhance the service provided, NILGOSC is willing to consider all potential delivery options and choose one that is most likely to result in successful delivery. In doing so, innovation is supported and systems/technology and policy developments are considered to enable operational delivery.

4.5 NILGOSC has to ensure it is flexible and responsive to changing demands in order to deliver an effective and efficient service to its stakeholders. It will endeavour to avail of technological developments and will make management decisions quickly where possible in order to capitalise on opportunities. Due to changing demands and developments, risk appetite is not static and so NILGOSC will keep its risk appetite under review alongside its annual review.

4.6 It is important to recognise that some risks are unavoidable and it is not always within the ability of the organisation to manage risk to a tolerable level. For example, NILGOSC has to accept that there are risks arising from events, such as natural disasters and industrial action, which it cannot control. To mitigate against these types of external risks, NILGOSC has developed a Business Continuity Plan to minimise any potential negative impact of a risk being realised.

5 Risk Management Process

5.1 The risk management process is structured in line with principle (d) of the risk management framework set out in section 2.2 above and includes the following four stages:

1) Risk Identification and Assessment
2) Risk Treatment
3) Risk Monitoring
4) Risk Reporting

5.2 Risk Identification and Assessment

5.2.1 NILGOSC undertakes continuous risk identification and assessment to determine and prioritise how the risks should be managed. This involves the identification of new risks as they arise, changes to existing risks or elimination of risks which are no longer relevant. This review is carried out by managers on an ongoing basis but is formally considered on a quarterly basis at Senior Management Team (SMT) meetings.

5.2.2 All identified risks are recorded on NILGOSC's Risk Register.

5.2.3 When a risk has been identified, it will then be assessed and assigned to a risk owner so that all information can be recorded on the risk register. The risk owner will be the person responsible for ensuring that the risk is managed and monitored over time. Ownership of strategic risks will normally be assigned to the Secretary or Deputy Secretary.

5.2.4 The first step in assessing a risk is to determine whether it is strategic or non-strategic, using the following definitions:

- *Strategic* risks concern the long-term strategic objective of the organisation and are highlighted in blue on the risk register. They can be affected by issues such as capital availability, sovereign and political risks, legal and regulatory changes, reputation and changes in the physical environment.
- *Non-strategic* risks concern the daily issues confronted by NILGOSC as it strives to deliver its strategic objective. This can include the effective management and control of finances, staff and resources; and compliance with statutory legislation and best practice. Non-strategic risks cover operational, financial, human and knowledge resources in addition to areas of compliance.

5.2.5 The next step is to give consideration to the risk category and risk appetite applicable to that risk, as set out in the Risk Evaluation Guidance. The Risk Evaluation Guidance, including scoring matrices, is provided at Appendix A. The consequences that would arise should the risk materialise should be identified and recorded on the Risk Register. Risks are then evaluated using the appropriate 4x4 matrix which assesses both the probabilitythat an event will occur and the impact on the organisation should the risk materialise. Risks are evaluated on an inherent basis and on a net basis. **Inherent risk** is the exposure arising from a specific risk before any controls are put in place to manage it whereas **net risk** is the exposure that can be expected from a specific risk after **effective** controls have been put in place and action taken to manage it. Risks are prioritised according to net risk score.

5.2.6 Risk identification and assessment also takes place on an ongoing basis at both an operational and project level. Procurements at the relevant threshold require the identification, assessment and evaluation of risks in line with NI Procurement Policy and NILGOSC's Purchasing Policy and Procedures.

5.3 Risk Treatment

5.3.1 The four main common responses to addressing risk are:

- Terminate – a decision is taken not to take the risk or cease the activity which causes the risk. Where risks outweigh the possible benefits, risks can be terminated by doing things differently and thus removing the risk where it is possible to do so, one example being the closing down of a project. However, this is not always possible in the provision of a service to the public or in relation to mandatory or regulatory requirements.

- Tolerate – accept the risk. This may be where the risk is external and therefore the opportunity to control it is limited or where the probability or impact is so low that the cost of managing it would be greater than the cost of the risk being realised.

- Transfer – this is where another party can take on some or all of the risk more economically or more effectively, for example through another organisation undertaking the activity or through obtaining insurance. It is important to note that some risks are not fully transferable, in particular it is generally not possible to transfer reputational risk even if the delivery of the service is contracted out.

- Treat – mitigate the risk. This is achieved by eliminating the risk or reducing it to an acceptable level by prevention or another control action.

5.3.2 NILGOSC's most common response to addressing risk is the latter through the selection, design, and implementation of risk treatment options (control measures) that support the achievement of intended outcomes and manage risks to an acceptable level. Effective control measures are put in place to mitigate against the probability and/or impact of the risk. The purpose of mitigation is that whilst continuing with the activity giving rise to the risk, control is taken to constrain the risk to an acceptable level.

5.3.3 NILGOSC operates a comprehensive internal control system which covers financial and other aspects of the organisation. The internal controls operated by NILGOSC include detective, directive, preventative and corrective controls.

5.3.4 It is important that the control put in place is proportionate to the risk. Every control action has an associated cost and it is important that the control offers value for money in relation to the risk it is controlling. It should be recognised that the purpose of control is to constrain risk rather than eliminate it and consideration will be given to the purpose and effectiveness of the controls put in place.

5.4 **Risk Monitoring & Reporting**

5.4.1 Risk monitoring is continuous and integrated in the risk management and strategic planning processes and is used to support insightful and informed decision making at operational, project and Committee level. All risk owners are required to complete a Statement of Assurance (SoA) at the end of each calendar quarter to confirm that the controls as outlined in the Risk Register are operating effectively, and that no new risk areas or control weaknesses have been identified. Managers are also required to state any action taken during the period in addressing key risks.

5.4.2 The Governance Manager collates the information from the SoAs and prepares a report for the SMT. This report and the Risk Register are reviewed by the SMT and all other risk owners on a quarterly basis. The outcome of this review is reported quarterly to the Audit and Risk Assurance Committee and the Management Committee.

5.4.3 A workshop is held with risk owners on an annual basis to undertake a formal and comprehensive review of the Risk Register. The review considers the completeness of the register together with the ongoing appropriateness of the risk evaluation scores, any new risks facing the organisation and any risk that are no longer relevant. Action to be taken over the coming year will be recorded on the Risk Register. The revised Risk Register is presented to the Audit and Risk Assurance Committee for consideration and recommendation to the Management Committee for approval.

6 Information Risk

6.1 In line with *Managing Public Money Northern Ireland*, NILGOSC recognises the importance of risk assessment, including managing information risks. NILGOSC's Information Risk Policy sets out the process involved in managing information risks and the roles and responsibilities of the staff involved in this process. This policy is reviewed and updated on a regular basis to reflect lessons learned and developments in best practice alongside the Information Risk Policy.

6.2 Information risk is assessed on an ongoing basis in line with the risk management process and is also specifically addressed through regular internal audit reviews and business continuity testing.

6.3 NILGOSC also completes a cyber security risk assessment against government guidance in relation to cyber security - '10 Steps to Cyber Security: Information Risk Management Regime'. This assessment demonstrates that NILGOSC has appropriate controls in place to mitigate against cyber security risk. In addition to ongoing internal vulnerability scanning, external penetration testing is also undertaken on an annual basis to provide assurance that robust information security controls are in place to protect NILGOSC systems and data from being breached. NILGOSC also undergoes Cyber Essentials Accreditation and Cyber Essentials Plus Accreditation annually as part of its business continuity testing.

6.4 NILGOSC continues to monitor information and cyber security risk on an ongoing basis as part of the regular risk review process.

7 Means of Gaining and Providing Assurance

7.1 As defined by HM Government, '*assurance is a general term for the confidence that can be derived from objective information over the successful conduct of activities, the efficient and effective design and operation of internal control, compliance with internal* *and external requirements, and the production of insightful and credible information to support decision-making. Confidence diminishes when there are uncertainties around the integrity of information or of underlying processes'.*

7.2 To gain assurance from its risk management framework, NILGOSC operates a 'three lines of defence' model. This delegates and co-ordinates risk management roles and responsibilities within and across the organisation as follows:

1) First line of defence: Management Control/Internal Measures:
    - Identify, assess, own and manage risks
    - Design, implement and maintain effective internal control measures
    - Supervise execution and monitor adherence
    - Implement corrective actions to address deficiencies

2) Second line of defence: Governance Team (Risk & Compliance Function):
    - Set the boundaries for delivery through the definition of standards, policies, procedures and guidance
    - Assist management in developing controls in line with good practice
    - Monitor compliance and effectiveness
    - Agree any derogation from defined requirements
    - Identify and alert senior management, and where appropriate governing bodies, to any emerging issues and changing risk scenarios

3) Third line of defence: Internal Audit
    - Provide an objective evaluation of the adequacy and effectiveness of the framework of governance, risk management and control
    - Provide proactive evaluation of controls proposed by management
    - Advise on potential control strategies and the design of controls

7.3 In this model, the Executive Management Team (Secretary and Deputy Secretary) and the Committee are not considered amongst the lines of defence as they collectively have responsibility and accountability for setting NILGOSC's objectives, defining strategies to achieve those objectives and establishing roles, structures and processes to best manage the risks in achieving those objectives successfully.

7.4 Other sources of independent external assurance are provided from external auditors, chiefly the Northern Ireland Audit Office, who have a statutory responsibility for the certification of the Annual Report and financial statements; the sponsor department; the Pensions Regulator and external system/accreditation reviews.

7.5 NILGOSC aims to provide assurance to its stakeholders in relation to risk management through the Governance Statement prepared by the Accounting Officer and reported in the Annual Report. Risk management is a key element of the effective accountability and corporate governance arrangements supporting the Annual Governance Statement. The Accounting Officer reviews the effectiveness of the corporate governance, risk management and control systems in operation and reports on the robustness of these and complies with the *Corporate Governance in Central Government Departments: Code of Practice NI 2013,* as relevant and applicable to NILGOSC.

7.6 In addition to this the Audit and Risk Assurance Committee produces an Annual Report which provides a summary of its work and provides assurance on NILGOSC's risk management and internal control systems. This is published in NILGOSC's Annual Report.

8 Roles and Responsibilities

8.1 The Secretary, as Accounting Officer, is responsible to the Department for Communities for maintaining a sound system of internal control. This involves putting a system in place to ensure that all business areas identify the key risks to the achievement of the organisation's objectives. The Accounting Officer reviews the effectiveness of the system of risk management and internal control, and reports annually via the Governance Statement included within the published Annual Report. The Accounting Officer also prepares a Bi-annual Statement of Assurance that is submitted to the Department for Communities.

8.2 The Management Committee is responsible for setting the risk appetite and ensuring that effective risk management arrangements are in place to provide assurance on risk management, governance, and internal control. The Audit and Risk Assurance Committee is charged with ensuring that the Management Committee and Accounting Officer gain the assurance they need on risk management, governance and internal control.

8.3 Strong leadership and clear ownership is essential in embedding risk management in the culture of NILGOSC. All risk owners are responsible for managing and monitoring their risks and ensuring that all staff are familiar with the risks within their business areas.

9 Review

9.1 The Risk Management Policy will be subject to formal review every three years. However, the policy will be updated when required to remain current and reflective of best practice guidance.

Appendix A

Risk Evaluation Guidance

Risk Management is not about eliminating all risks – NILGOSC recognises that some risks will have to be taken to add value to the organisation. The aim of the risk review process is to gain a better understanding of the nature and scale of risks that could impact on business objectives and then taking actions to reduce or mitigate against negative threats and maximise positive opportunities.

Step 1: Categorise risks

1.1 In line with the Institute of Risk Management's standards, NILGOSC classifies its risks as strategic or non-strategic:

- *Strategic* risks concern the long-term strategic objective of the organisation. They can be affected by issues such as capital availability, sovereign and political risks, legal and regulatory changes, reputation and changes in the physical environment. *Strategic risks are highlighted in blue on the risk register*.

- *Non-strategic* risks concern the daily issues confronted by NILGOSC as it strives to deliver its strategic objective. This can include the effective management and control of finances, staff and resources, as well as compliance with statutory legislation and best practice. Non-strategic risks cover operational, financial, human and knowledge resources in addition to areas of compliance.

1.2 NILGOSC groups its risks according to the following six key categories:

- Investment;
- Financial;
- Reputational;
- Political/Strategic;
- Compliance; or
- Operational.

1.3 **Each risk on the risk register must be assigned one of the above risk categories**. Once a risk category has been assigned, this will determine the applicable risk appetite (as shown in table 2.3 below).

Step 2: Determination of risk appetite

2.1 Risk appetite is the amount of risk that an organisation is willing to seek or accept in the pursuit of its strategic objectives. It also takes account of the adequacy of the controls in place to manage the risk.

2.2 NILGOSC's risk appetite is assessed using HM Treasury's Risk Appetite Guidance Note 2021 classifications set out in the table below:

Classification	Definition
Eager	Eager to be <u>innovative</u> and to choose options based on maximising opportunities and potential higher benefit even if those activities carry a very high residual risk.

Classification	Definition
Open	Willing to consider <u>all</u> options and choose the one most likely to result in successful delivery while providing an acceptable level of benefit. Seek to achieve a balance between a high likelihood of successful delivery and a high degree of benefit and value for money. Activities themselves may potentially carry, or contribute to, a high degree of residual risk.
Cautious	Preference for <u>safe</u> delivery options that have a <u>low degree</u> of inherent <u>risk</u> and only <u>limited</u> potential for <u>benefit</u>. Willing to tolerate a degree of risk in selecting which activities to undertake to achieve key deliverables or initiatives, where we have identified scope to achieve significant benefit and/or realise an opportunity. Activities undertaken may carry a high degree of inherent risk that is deemed controllable to a large extent.
Minimalist	Preference for <u>very safe business delivery options that have a low degree of inherent risk with the potential for benefit/ return not a key driver. Activities will only be undertaken where they have a low degree of inherent risk.</u>
Averse	<u>Avoidance of risk</u> and uncertainty in achievement of key deliverables or initiatives is key objective. Activities undertaken will only be those considered to carry virtually no inherent risk.

Source: HM Treasury – 'Risk Appetite Guidance'(2021)

2.3 NILGOSC reviews and assesses its risk appetite annually whilst undertaking the annual review of the risk register. The last review of risk appetite undertaken determined that NILGOSC has an ***open/cautious*** appetite to risk taking, with the exception of compliance risks, where its appetite is risk ***averse***. The outcome of the reviews in respect of each of the categories is summarised in the table below.

Risk category	Risk appetite
Investment	**Open** – NILGOSC recognises that risks also present opportunities. NILGOSC has significant investments in return seeking assets which are riskier than other asset classes, such as cash or bonds. NILGOSC is willing to take this risk in order to maximise the returns on its investments although it does manage the risk through diversification and investment monitoring.
Financial	**Cautious** – Solvency of the fund and the sustainability of the Scheme is the key to protecting members' interests. NILGOSC has made prudent assumptions through the fund valuation with a view to maintaining the solvency of the fund over the longer term and ensuring that sufficient resources will be available to meet all liabilities as they fall due.
Reputational	**Cautious** – It is common for the pensions industry and the public sector to have a cautious reputational risk appetite in order to maintain credibility as a pension provider and the confidence of its stakeholders in the security of their pension benefits.
Political/ Strategic	**Open** – NILGOSC is unique as a non-departmental public body as it is not funded by government but is still bound by Departmental requirements. NILGOSC is willing to consider all options to ensure that the best interests of its members

Risk category	**Risk appetite**
Political/ Strategic	are served by both Government and Departmental policies and strategies and will seek to be proactive in this area through engagement with officials and consultation.
Compliance (legal/ regulatory)	**Averse –** NILGOSC aims to adhere to the highest standards of governance when conducting its business and has no tolerance for non-compliance with statutory and other regulatory requirements. It has a suite of policies and procedures in place to ensure compliance and these are reviewed and updated in line with best practice on a regular basis.
Operational	**Open –** NILGOSC's vision is 'to provide an excellent and sustainable pension scheme' and its mission is 'to operate the pension scheme efficiently and effectively while enhancing the quality of service provided to stakeholders'. In seeking to enhance the service provided, NILGOSC is willing to consider all potential delivery options and choose one that is most likely to result in successful delivery. In doing so, innovation is supported and systems/technology and policy developments are considered to enable operational delivery.

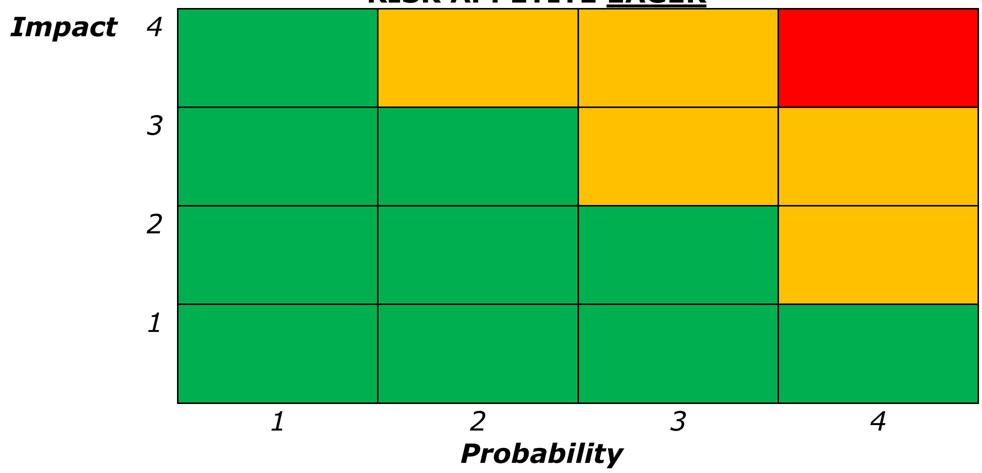
Step 3: Determine appropriate risk matrix to map risk

3.1 Each risk appetite has its own risk matrix that should be used to map any risks falling within that appetite, i.e. 'Investment', 'Political/Strategic' and 'Operational' risks should be mapped using the 'Open' risk appetite matrix; 'Financial' and 'Reputational' risks should be mapped using the 'Cautious' risk appetite matrix; 'Compliance' risks should be mapped using the ''Averse' risk appetite matrix.

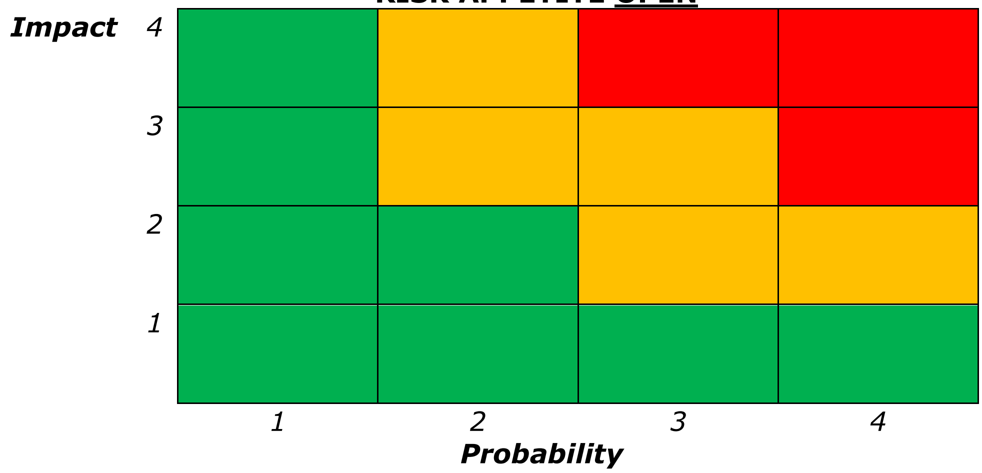
3.2 The colour profile of each matrix differs in such a way that the greater the risk appetite the more risks are green (i.e. low risk – see 5.2) and the lower the appetite for risk the more risks are red (i.e. high risk – see 5.2). As a result, the same risk score can have a different colour depending on the matrix used to map the risk.

3.3 The risk matrices are set out below:

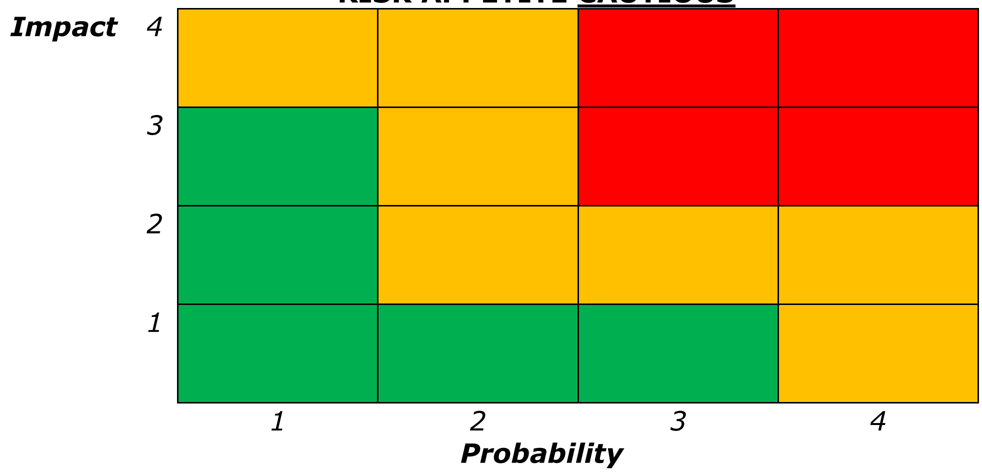
RISK APPETITE <u>EAGER</u>



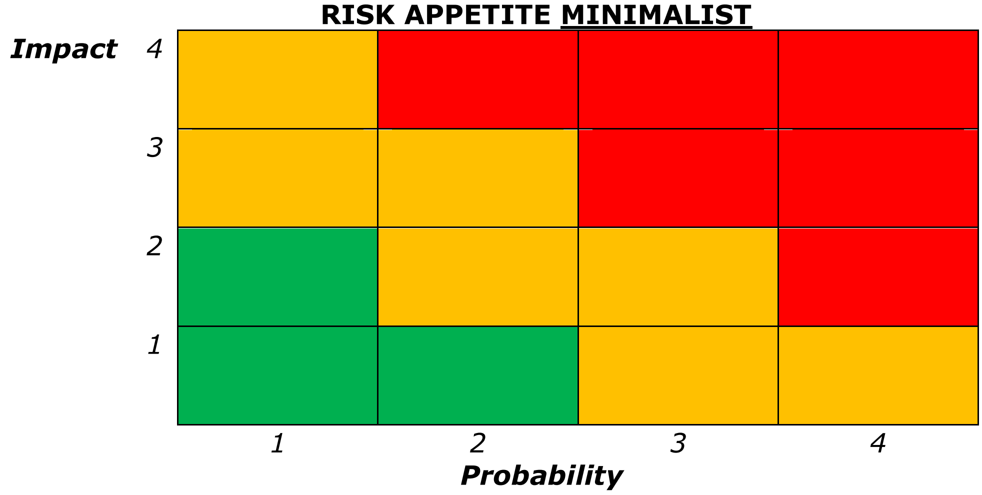
RISK APPETITE <u>OPEN</u>



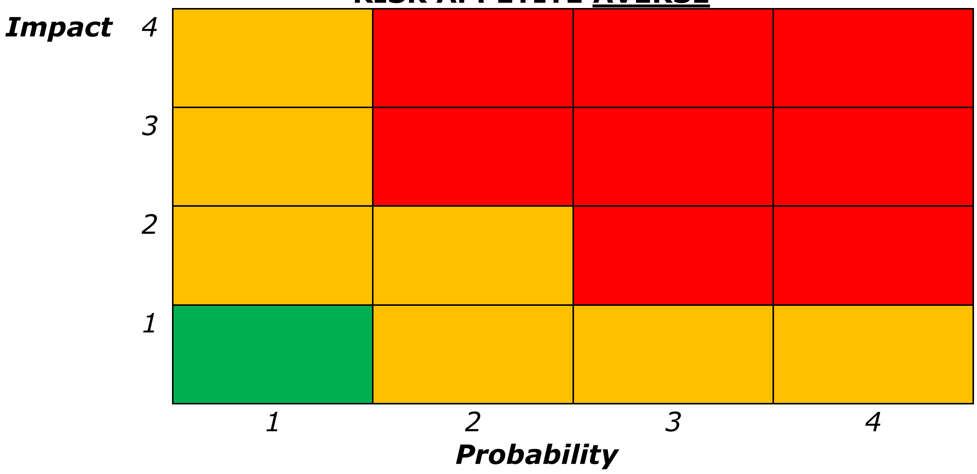
RISK APPETITE <u>CAUTIOUS</u>



RISK APPETITE <u>MINIMALIST</u>



RISK APPETITE <u>AVERSE</u>



Step 4: Assess risk

4.1 **Inherent Risk** – this is the level of risk that exists assuming that there are no risk controls in place. It is important to firstly score the inherent risk as it highlights the importance of the critical controls that are needed to modify the risk as well as areas where attention needs to be focussed.

Net Risk – this is the level of risk that still exists assuming controls are in place and are operating effectively. As the purpose of controls is to reduce either the likelihood or the impact of a risk occurring, net risk should be lower than inherent risk. However, there may be instances where despite controls, the inherent and net risk scores remain the same but it is important to identify and eliminate weak controls that have no impact on reducing the probability or impact of the risk.

4.2 Depending on the risk appetite, NILGOSC will **use the appropriate 4 x 4 risk matrix from step 3** to determine the inherent and net risk score for each risk identified. The score for probability is multiplied by the score for impact to provide the overall risk score. This allows the risks to be prioritised and attention focused on those risks with the highest score. As the probability and impact increases, so too does the level of risk.

4.3 Impact

Ranking		**Description**
4	**Extreme**	The consequences of the risk materialising would have a disastrous impact on NILGOSC's reputation and business continuity. Consequences may include: loss of credibility; Government/Departmental intervention; loss of key stakeholders; extensive adverse national and local media; extreme financial loss; total service disruption; serious breach of legal or contractual obligation; potential for fatalities to staff and/or the public; failure to meet key business plan objectives/internal standards/targets.

Ranking		**Description**
3	**High**	The consequences of this risk materialising would be severe but not disastrous. Consequences may include: loss of trust; extensive complaints; significant adverse national and local media; significant financial loss; sustained service disruption; breach of legal or contractual obligation; failure to meet key business plan objectives/internal standards/targets.
2	**Medium**	The consequences of this risk materialising would have a moderate impact on day-to-day delivery. Status of the risk should be monitored regularly. Consequences may include: significant complaints; short-term service disruption; local media attention; failure to meet recommended best practice; some financial loss; failure to meet some business plan objectives/internal standards/targets.
1	**Low**	The consequences of this risk materialising would have a minor impact. Status of the risk should be monitored periodically. Consequences may include: isolated complaints; low level or no financial loss; minor service disruption; unlikely to impact on meeting business plan objectives/internal standards/targets.

4.4 **Probability**

Probability should be considered within a set time frame, i.e. the probability of the risk occurring in the next 12 months.

4 = Almost certain:	>90% chance – Highly likely to occur
3 = Likely:	>60% chance – More likely to occur than not
2 = Possible:	>10% chance – Reasonable chance of risk occurring
1 = Unlikely:	<10% chance – Has not occurred before/may occur in isolated instances

Step 5: Determine risk status

5.1 The risks scores (from step 4) plotted on the appropriate risk matrix (from step 3) will be used to determine the risk status – Red, Amber or Green (RAG).

5.2 Risk status is based on the **net risk** with controls in place and will determine which risk areas need to be prioritised:

Red: High risk.
Amber: Medium risk.
Green: Low risk.

The status of the risk will determine how it is controlled.

Step 6: Risk control

6.1 Risk Control involves selecting one or more options to treat or modify the risk. It is important to strike a balance between too little control, which exposes the organisation to damaging levels of loss and too much control which can result in lost opportunities.

6.2 When deciding on options to treat or modify a risk, it is common practice to consider the 4T's:

Terminate: Avoid or eliminate exposure to the risk.

Treat: Implement actions and controls to modify the risk.

Transfer: All or part of the financial risk or activity giving exposure to the risk is transferred to another party.

Tolerate: Accept the level of risk.

6.3 Every control should be considered in terms of how it reduces the probability of the event occurring and the impact should the risk event occur. It may be that there is little that can be done to reduce the probability (e.g. volcanic ash cloud, flood) but can reduce the impact and vice versa. However, it is important not to include weak, ineffective controls and to review the effectiveness of the controls on a regular basis.

6.4 The status of the risk, i.e. red, amber, or green, will influence the controls in place for that risk. Risks identified as 'red' are the most significant risks faced by NILGOSC and will therefore require more stringent controls than 'amber' or 'green' risks. Examples of the types of controls appropriate for each risk status are outlined below:

<u>Red Risks:</u>

- These risks will be prioritised and actively monitored by the SMT and the Committee through the formal quarterly risk review.
- Terminate or transfer the risk, where possible.
- Allocate additional resources and take further action to treat the risk. Implement controls – this could be controls that attempt to avoid, change or mitigate against the risk.
- Audit controls.
- Staff Training.
- Develop strategic response/contingency plans.

<u>Amber Risks:</u>

- These risks should be regularly monitored for change by the SMT.
- Consider transfer of the risk, where possible.
- Continue to implement existing controls to treat the risk.
- Audit controls.
- Staff Training.
- Develop contingency plans.

Green Risks:

- Tolerate the risk.
- Monitor for change.
- Improve only if a clear cost benefit exists.

Step 7: Risk recording and review

7.1 Each risk is recorded on the risk register. Risks are collated on the basis of risk appetite category, i.e. 'investment' risks are grouped together, 'financial' risks are grouped together, 'reputational' risks are grouped together etc.

7.2 In line with its Risk Management Policy, NILGOSC reviews the risk register on a quarterly basis. The scores and status of each risk will be reviewed and any changes will be updated or any new risks added.

7.3 The risk appetite will be reviewed on an annual basis in line with the risk register.

Northern Ireland Local Government Officers' Superannuation Committee

Risk Management Policy

Approved Date	10 June 2024
Review Date	April 2024
Related Legislation/Applicable Section of Legislation	*Single Code: Governance and administration of public service pension schemes* – The Pensions Regulator (TPR), 2024 *HM – Risk Appetite Guidance Note (2021)*
Related Policies, Procedures, Guidelines, Standards, Frameworks	Information Risk Policy *Corporate Governance in Central Government Departments: Code of Practice NI 2013* – DFP 2013 (DAO 06/13) *Good Practice in Risk Management* – Northern Ireland Audit Office, 2011 *A Structured Approach to Enterprise Risk Management* - Institute of Risk Management (IRM), 2010 *The Orange Book* – Management of Risk, Principles and Concepts' – HM Government, 2023 Information Risk Policy Risk Evaluation Guidance
Replaces	Risk Management Policy 1.0 (2020)
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April 2024	2.0	Addition of a cover sheet and version control
		Updates throughout to reflect changes contained in HM Government The Orange Book – Management of Risk, Principles and Concepts (2023)
		Updated to align to HM Risk Appetite Guidance Note (2021)