

Getting the most of your Own Risk Assessment (ORA)

4 MINUTE READ

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It's been over twelve months since the General Code of Practice introduced the ORA. Where we support schemes with their ORAs, it is a forward-looking strategic tool to help trustees make informed decisions and have assurance that their schemes are well-governed, with effective risk management and operational resilience.

Key messages on the ORA

- When done properly, the ORA improves scheme governance, management and decision making.
- It's more than just having policies in place, it's about demonstrating that those policies are implemented in practice through the underlying processes and that the governance arrangements are fit for purpose given the scheme's circumstances and future requirements.
- It's also about ensuring you're focusing on the right risks for your circumstances and you can evidence that they are being managed well.

What the ORA involves

The ORA should cover:

- how the trustee has assessed the effectiveness of each of the policies and procedures covered by the ORA,
- whether the trustee considers the operation of the policies and procedures to be effective and why, and
- how risks are being managed and integrated into decision making, with requirements relating to specific risks.

Governance

Knowing what the system of governance looks like, be able to point to it, and understand where any gaps remain is the foundation of the ORA –

trustees need this information to ask themselves if they think their governance arrangements are fit for purpose.

The key aspect of the ORA from a governance perspective, which is different to checking that the policies are in place, is that the trustee must be able to evaluate (and evidence) that each ESOG element is functioning as intended, reviewed at least every three years, to assess that:

- the governance arrangements are appropriate and working as they should be,
- the policies which relate to the ESOG are working in practice, i.e. they are up to date and supported by the right processes to enable their practical implementation.

As well as the policies relating to the ESOG, the ORA requirements specifically ask the trustee to assess:

- the operation of policies relating to the role of the governing body, knowledge and understanding and governance of knowledge and understanding,
- the operation of policies to identify and assess risks facing the scheme,
- the internal control policies and procedures for the scheme,
- management of potential internal conflicts of interest, and those with participating employers and service providers,
- the prevention of conflicts of interest where

the employer and governing body use the same service provider,

- continuity planning for the scheme and how it has performed,
- the scheme's investment governance processes and
- how investment performance is reviewed and monitored.

Risk management

From a risk perspective, the ORA is assessing that good risk management practices are in place, as required in the ESOG, but it also has specific requirements in respect of governance, funding, investment, administration and operational risks.

The starting point is the scheme's risk profile - those risks to which the scheme is most exposed or which would be most material should they crystallise. That helps determine where, as a trustee board, you spend your time and scheme budget.

The ORA requirements also cover some specific 'how' questions e.g., inter alia:

- how the trustee assesses the effectiveness of the risk management system,
- how the trustee assesses operational risks,
- how the trustee assesses the scheme's funding needs, with reference to the recovery plan where applicable,
- where environmental, social and governance factors are considered in investment decisions, how the trustee or managers assess new or emerging risks, such as climate change, the use of resources and the environment,
- how the trustee ensures the security of assets and their liquidity when they are required, and
- how the trustee assesses the risks associated with the scheme's administration and payment of benefits, with particular reference to financial transactions, scheme records and receiving contributions.

Understanding how effective controls are at managing identified risks is a key aspect of risk management. While the ORA does not need to

document the steps taken to mitigate identified risks, the expectation is that these will already be captured in the scheme's risk register and reviewed to ensure they are indeed managing/mitigating the identified risks.

The ORA report

The ORA process should add value to the trustee's strategic thinking. The ORA report should be a tool for the trustee to reflect on its objectives and strategy, test that its governance is fit for purpose, ensure that it is effectively managing its risks and remains operationally resilient.

We use a dashboard format with supporting information sitting behind the summary. This supporting information is provided in our ORA tool which provides an audit trail for the ORA exercise, along with evidence to support the findings.

Being prepared for the ORA process

You will want to agree the process, timings and inputs for completing the ORA, so that it's clear who's involved and doing what, when, as it'll come around quickly.

The starting point is thinking about your objectives for your scheme, as they define the governance arrangements you have in place, how you prioritise activities and the risks you spend your time worrying about.

Getting the most out of the ORA

By the end of the ORA, you want to be able to evidence that decision making, risk management and oversight are effective.

For the ORA to make a difference, integrate the findings and actions into your business planning cycle to ensure that improvements are made. 