Charity

BWMacfarlane LLP
CHARTERED ACCOUNTANTS

Managing risk

A guide for charities

Charity

Managing risk

Boards of trustees are under pressure to keep on top of a wide variety of risks that might threaten their organisation's success and sustainability, requiring them to take a practical, pragmatic approach that is fit for purpose.

The profile of effective risk management has been raised by the focus of attention from regulators and sector advisory bodies – the tone has been set for charities and not-for-profit organisations by the Charities Commission with the guidance set out in "CC26 Charities and Risk Management – a guide for trustees".

In particular the guide recommends that trustees monitor risk by:

1. ensuring that the identification, assessment and mitigation of risk is linked to the achievement of the charity's operational objectives;
2. ensuring that the assessment process reflects the trustees' view of acceptable risk;
3. reviewing and considering the results of risk identification, evaluation and management;
4. receiving interim reports where there is an area needing further action;
5. considering the risks attached to significant new activities or opportunities;
6. regularly considering external factors such as new legislation or new requirements from funders; and
7. considering the financial impact of risk as part of operational budget planning and monitoring.

Typically, charities are very good at identifying risks and creating very detailed risk registers. However, on closer inspection the assessment of key risks and the actual control of risk may often be weak. Consequently the decisions to take at the "residual" or net risk level (risk that remains after appropriate action is taken) may be avoided or in effect ignored.

How much risk is acceptable?

Item 2 in the list above is a current hot topic for most organisations – not just charities.

Indeed the use of the terms "risk appetite", "risk tolerance" and "risk culture" have gained more prominence with the two recent reports published by the Institute of Risk Management, the "Risk Appetite & Tolerance'" (October 2011) and "Risk Culture'" (October 2012) reports.

BWMacfarlane LLP
CHARTERED ACCOUNTANTS

These identified concepts of: (a) understanding the difference between the concepts of risk tolerance – "the risks the organisation is able to put up with" vs. risk appetite – "the risks it actively wishes to engage with"; and (b) that both the individual and the organisation's values and beliefs and attitudes towards risk need to be aligned, as part of an overall "risk culture".

Risk management is a day-to-day and dynamic process which should cover the entire organisation, involving people at all levels, and thus needs high-level management input and direction – top down.

While the board of trustees have the headline responsibility for risk management, to get things done it is essential in larger charities to establish a hierarchy with multiple levels of coordination together with feedback mechanisms to demonstrate the "enterprise-wide" reporting and monitoring of critical risks. Many executive and management teams have an intuitive understanding of risk management concepts.

This requires a formal, practical and consistent process throughout the organisation to help people to understand how to respond appropriately to the risks that matter. Definitions of concepts such as "risk appetite" can then be built into the overall framework and can form part of the assessment process.

Given the low maturity level of risk management processes of most charities, risk appetite tends to be reflected in fairly broad-brush statements, rather than being considered as part of the assessment of individual risks.

Risk management needs to become part of every operating and support process, and key is making sure management and employees have a real awareness and, where appropriate, the training and education they need to be able to identify, assess, manage and monitor critical risks, and know how to deal with both risk threats and risk opportunities. Having consistent organisation-wide processes allows comparisons of risks and as risks are aggregated, the trends of pooled risks can become more predictable.

Good risk management depends on people and if necessary changing their behaviour. To help embed the process linking risk to personal objectives should be a natural step as individuals can then see the link from risk to their own role. In organisations where risk management is a mature process, the board of trustees and executive teams also become more confident about managing risks and are better able to identify positive "opportunities", that if not grasped may have a bigger risk impact than the traditional focus on a portfolio of negative "threats".

In simple terms it is important to get the basic, first principles right, in particular to consider:

1. **Purpose** – understand and communicate why you need to do it.
2. **People** – get the right people involved and engaged.
3. **Process** – promote a consistent, logical and clear approach.

Ensuring that you have the first principles right gives your organisation a strong foundation from which you can build good risk management frameworks.

FOR GENERAL INFORMATION ONLY
Please note that this guide is not intended to give specific technical advice and it should not be construed as doing so. It is designed to alert clients to some of the issues. It is not intended to give exhaustive coverage of the topic.

Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.

About Us

Professional, Personal, Affordable.
We are one of the leading, independent chartered accountancy practices in Liverpool. At BWMacfarlane we provide a wide range of accountancy and business support services to organisations and individuals throughout the North of England and beyond. Our experienced and skilled partners and their teams are ready to support you with high quality, individual yet affordable services however complex your personal or business needs.

For more details of how we can help you transform your business, please visit www.bwm.co.uk or call us on 0151 236 1494