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Charity Governance – Risk Management



Today's Session

- Risk Management for charities
- What is a risk?
- Types of risk?
- Risk management
 - Identify;
 - Evaluate;
 - Manage
- Sharing is caring?

Risk Management in Charities

- Key part of effective governance – identify and manage possible and probable risks
- For charities of all sizes and complexity
- Significant risks will be known and monitored – make informed decisions and timely action
- Make the most of opportunities – confidence re risk management
- Forward and strategic planning are improved
- The charity's aims are achieved more successfully

Risk – what is it?

An uncertain event which may occur in the future preventing or delaying a charity's ability to realise and achieve its objectives

To estimate risk properly, each risk should be:

- Identified;
- Understood; and
- Evaluated

by the Trustees



Risk Categories

1. Governance
2. Strategic
3. Compliance (legal or regulatory)
4. Operational
5. Financial
6. Environmental
7. Reputational



Governance Risks

- Inappropriate organisational structure/outdated governing document
- Trustee Board lacks relevant skills or commitment
- High Board turnover
- Conflicts of interest not properly managed
- Absence of relevant policies
- Failure to implement agreed policies properly
- Policies not being reviewed



Strategic Risks

- Any risk which may cause a charity to be delayed or prevented from achieving its objectives
- Failure to control costs
- Failure to understand the resources needed for a particular project or particular service

Compliance Risks

- Acting in breach of trust
- Poor knowledge of legal responsibilities
 - Employment law
 - Health & Safety
 - Data protection
 - Child protection
- Poor knowledge of regulatory responsibilities of particular activities, such as:
 - Fundraising;
 - Running of care facilities;
 - Operating vehicles
- Failure to have an appropriate level of insurance in place

Operational Risks

- Poor contract pricing
- Poor staff recruitment and training
 - Employees/volunteers being unavailable;
 - Employees/volunteers only trained for one role – unable to cover other roles in event of absence
- Lack of planning in event of premises being damaged or unusable for a period of time
- Doubt over security of assets



Financial Risks

- Inaccurate and/or insufficient financial information
 - Failure to plan to meet future needs
- Inadequate reserves and cash flow
 - Failure to maintain prudent financial reserves
- Dependency on limited income sources
 - Failure to properly assess and understand the financial viability of the charity
 - Misunderstanding funder priorities/requirements
 - Poorly articulated funding applications
 - Missed deadlines for funding applications
- Inadequate investment management policies
- Insufficient insurance cover



Reputational/External Risks

- Poor public perception and reputation
- Demographic changes – increase/decrease in size of beneficiary group
- Turbulent economic or political environment
- Changing government policy



Risk Management

- Identify
- Evaluate
 - Impact
 - Likelihood
 - Heat map/RAG rating
- Manage

Risk Impact

Descriptor	Score	Impact on service and reputation
Insignificant	1	<ul style="list-style-type: none">• no impact on service• no impact on reputation• complaint unlikely• litigation risk remote
Minor	2	<ul style="list-style-type: none">• slight impact on service• slight impact on reputation• complaint possible• litigation possible
Moderate	3	<ul style="list-style-type: none">• some service disruption• potential for adverse publicity - avoidable with careful handling• complaint probable• litigation probable
Major	4	<ul style="list-style-type: none">• service disrupted• adverse publicity not avoidable (local media)• complaint probable• litigation probable
Extreme/Catastrophic	5	<ul style="list-style-type: none">• service interrupted for significant time• major adverse publicity not avoidable (national media)• major litigation expected• resignation of senior management and board• loss of beneficiary confidence

Risk Likelihood

Descriptor	Score	Example
Remote	1	may only occur in exceptional circumstances
Unlikely	2	expected to occur in a few circumstances
Possible	3	expected to occur in some circumstances
Probable	4	expected to occur in many circumstances
Highly probable	5	expected to occur frequently and in most circumstances



Risk Strategies

- Transfer
- Terminate
- Treat
- Tailor



Transfer Risk

- Transfer the financial consequences to third parties:
 - Use of a trading subsidiary
 - Outsourcing
 - Other contractual arrangements with third parties
- Share the financial consequences through insurance or outsourcing:
 - Joint venture project



Terminate Risk

- Avoid the activity giving rise to the risk
- Terminate a particular activity or services
- Don't take up a potential contract
- Cease to operate in that location/country etc



Treat Risk

- Management/mitigation of risk – establish or improve control procedures
 - Internal financial controls
 - Controls on recruitment
 - Personnel policies
- Reduce to an acceptable level



Tailor Risk

- Accept the risk cannot be avoided if the activity is to continue
- Take out insurance with a higher level of excess



Documentation

- Risk Policy
- Risk Register
- Risk Reporting
- Risk Management Statement



Q&A

Thank you

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