Risk Management
Policy & Procedure

Date:	**September 2020**
Review Date:	**September 2021**
Version:	**1.1**
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1. <u>Governance Risks</u>

Potential Risk	Potential Impact	Steps Taken to Mitigate Risk
The charity lacks direction, strategy and forward planning	○ The charity drifts with no clear objectives, priorities or plans. ○ Issues are addressed piecemeal with no strategic reference. ○ Needs of beneficiaries not fully addressed. ○ Financial management difficulties. ○ Loss of reputation.	○ Create a strategic plan which sets out the key aims, objectives and policies. ○ Create financial plans and budgets. ○ Use job plans and targets. ○ Monitor financial and operational performance. ○ Get feedback from beneficiaries and funders.
Trustee body lacks relevant skills or commitment	○ Charity becomes moribund or fails to achieve its purpose. ○ Decisions are made bypassing the trustees. ○ Resentment or apathy amongst staff. ○ Poor decision making reflected in poor value for money on service delivery.	○ Review and agree skills required. ○ Draw up competence framework and job descriptions. ○ Implement trustee training and induction. ○ Review and agree recruitment processes.
Trustee body dominated by one or two individuals, or by connected individuals	○ Trustee body cannot operate effectively as strategic body. ○ Decisions made outside of trustee body. ○ Conflicts of interest. ○ Pursuit of personal agenda. ○ Culture of secrecy or deference. ○ Arbitrary over-riding of control mechanisms.	○ Consider the structure of the trustee body and its independence. ○ Agree mechanisms to manage potential conflicts of interest. ○ Review and agree recruitment and appointment processes in line with governing document. ○ Agree procedural framework for meetings and recording decisions.
Trustees are benefiting from charity (e.g. remuneration)	○ Poor reputation, morale and ethos. ○ Adverse impact on overall control environment.	○ Ensure legal authority for payment or benefit. ○ Consider alternative staffing arrangements.

	○ Conflicts of interest. ○ Possibility of regulatory action.	○ Implement terms and procedures to authorise/approve expenses and payments. ○ Agree procedures and methods to establish fair remuneration conducted separately from 'interested' trustee (remuneration committee/benchmarking exercise etc).
Conflicts of interest	○ Charity unable to pursue its own interests and agenda. ○ Decisions may not be based on relevant considerations. ○ Impact on reputation. ○ Private benefit.	○ Agree protocol for disclosure of potential conflicts of interest. ○ Put in place procedures for standing down on certain decisions. ○ Review recruitment and selection processes.
Ineffective organisational structure	○ Lack of information flow and poor decision-making procedures. ○ Remoteness from operational activities. ○ Uncertainty as to roles and duties. ○ Decisions made at inappropriate level or excessive bureaucracy.	○ Use organisation chart to create a clear understanding of roles and duties. ○ Delegation and monitoring should be consistent with good practice and constitutional or legal requirements. ○ Review structure and the need for constitutional change.
Activities potentially outside objects, powers or terms of gift (restricted funds)	○ Loss of funds available for beneficiary class. ○ Liabilities to repay funders. ○ Loss of funder confidence. ○ Potential breach of trust and regulatory action. ○ Loss of beneficiary confidence. ○ Taxation implications (if non-qualifying expenditure).	○ Agree protocol for reviewing new projects to ensure consistency with objects, powers and terms of funding. ○ Create financial systems to identify restricted funds and their application.
Loss of key staff	○ Experience or skills lost.	○ Succession planning.

	○ Operational impact on key projects and priorities. ○ Loss of contact base and corporate knowledge.	○ Document systems, plans and projects. ○ Implement training programmes. ○ Agree notice periods and handovers. ○ Review and agree recruitment processes
Reporting to trustees (accuracy, timeliness and relevance)	○ inadequate information resulting in poor quality decision making. ○ Failure of trustees to fulfil their control functions. ○ Trustee body becomes remote and ill informed.	○ Put in place proper strategic planning, objective setting and budgeting processes. ○ Timely and accurate project reporting. ○ Timely and accurate financial reporting. ○ Assess and review projects and authorisation procedures. ○ Have regular contact between trustees and senior staff and managers

2. Operational Risks

Contract risk	○ Onerous terms and conditions. ○ Liabilities for non-performance. ○ Non-compliance with charity's objects. ○ Unplanned subsidy of public provision.	○ Create cost/project appraisal procedures. ○ Agree authorisation procedures. ○ Get professional advice on terms and condition. ○ Put in place performance monitoring arrangements. ○ Consider insurable risks cover
Service provision - customer satisfaction	○ Beneficiary complaints. ○ Loss of fee income. ○ Loss of significant contracts or claims under contract. ○ Negligence claims.	○ Agree quality control procedures. ○ Implement complaints procedures. ○ Benchmark services and implement complaints review procedures.

	○ Reputational risks.	
Project or service development	○ Compatibility with objects, plans and priorities. ○ Funding and financial viability. ○ Project viability. ○ Skills availability.	○ Appraise project, budgeting and costing procedures. ○ Review authorisation procedures. ○ Review monitoring and reporting procedures
Competition from similar organisations	○ Loss of contract income. ○ Reduced fund-raising. ○ Potential. ○ Reduced public profile. ○ Profitability of trading activities.	○ Monitor and assess performance and quality of service. ○ Review market and methods of service delivery. ○ Agree fund-raising strategy. ○ Ensure regular contact with funders. ○ Monitor public awareness and profile of charity.
Suppliers, dependency, bargaining power	○ Dependency on key supplier. ○ Lack of supplier to meet key operational objectives. ○ Non-competitive pricing/ quotes. ○ Insufficient buying power.	○ Use competitive tendering for larger contracts. ○ Put in place procedures for obtaining quotations. ○ Authorised suppliers listing. ○ Monitor quality/timeliness of provision. ○ Use service level agreements. ○ Consider use of buying consortia
Capacity and use of resources including tangible fixed assets	○ Under-utilised or lack of building/office space. ○ Plant and equipment obsolescence impacting on operational performance. ○ Mismatch between staff allocations and key objectives. ○ Spare capacity not being utilised or turned to account.	○ Agree building and plant inspection programme. ○ Agree repair and maintenance programme. ○ Agree capital expenditure budgets. ○ Undertake efficiency review

Security of assets	○ Loss or damage ○ Theft of assets ○ Infringements of intellectual property rights	○ Review security arrangements. ○ Create asset register and inspection programme. ○ Agree facility management arrangements. ○ Have safe custody arrangements for title documents and land registration. ○ Manage use of patent and intellectual property ○ Review insurance cover.
Fund-raising	○ Unsatisfactory returns. ○ Reputational risks of campaign or methods used. ○ Actions of agents and commercial fund-raisers. ○ Compliance with law and regulation.	○ Implement appraisal, budgeting and authorisation procedures. ○ Review regulatory compliance. ○ Monitor the adequacy of financial returns. ○ Achieved (benchmarking comparisons). ○ Stewardship reporting in annual report.
Employment issues	○ Employment disputes. ○ Health and safety issues. ○ Claims for injury, stress, harassment, unfair dismissal. ○ Equal opportunity and diversity issues. ○ Adequacy of staff training. ○ Child protection issues. ○ Low morale. ○ Abuse of vulnerable beneficiaries.	○ Review recruitment processes. ○ Agree reference and qualification checking procedures, job descriptions, contracts of employment, appraisals and feedback procedures. ○ Implement job training and development. ○ Implement health and safety training and monitoring. ○ Be aware of employment law requirements. ○ Implement staff vetting and legal requirements (e.g. DBS checks). ○ Agree a whistle-blowing policy.
High staff turnover	○ Loss of experience or key technical skills. ○ Recruitment costs and lead time. ○ Training costs.	○ Review interview and assessment processes. ○ Agree fair and open competition appointment for key. ○ Posts.

	○ Operational impact on staff morale and service delivery.	○ Agree job descriptions and performance appraisal and feedback systems. ○ Conduct 'exit' interviews. ○ Review rates of pay, training, working conditions, job satisfaction.
Volunteers	○ Lack of competences, training and support. ○ Poor service for beneficiaries. ○ Inadequate vetting and reference procedures. ○ Recruitment and dependency.	○ Review and agree role, competencies. ○ Review and agree vetting procedures. ○ Review and agree training and supervision procedures. ○ Agree development and motivation initiatives.
Health, safety and environment	○ Staff injury. ○ Product or service. ○ Liability. ○ Ability to operate (see Compliance risks). ○ Injury to beneficiaries and the public.	○ Comply with law and regulation. ○ Train staff and compliance officer. ○ Put in place monitoring and reporting procedures.
Disaster recovery and planning	○ Computer system failures or loss of data. ○ Destruction of property, equipment, records through fire, flood or similar damage.	○ Agree IT recovery plan. ○ Implement data back-up procedures and security measures. ○ Review insurance cover. ○ Create disaster recovery plan including alternative accommodation.
Procedural and systems documentation	○ Lack of awareness of procedures and policies. ○ Actions taken without proper authority.	○ Properly document policies and procedures. ○ Audit and review of systems.
Information technology	○ Systems fail to meet operational need.	○ Appraise system needs and options.

	○ Failure to innovate or update systems. ○ Loss/corruption of data e.g. donor base. ○ Lack of technical support. ○ Breach of data protection law.	○ Appraise security and authorisation procedures. ○ Implement measures to secure and protect data. ○ Agree implementation and development procedures. ○ Use service and support contracts. ○ Create disaster recovery procedures. ○ Consider outsourcing. ○ Review insurance cover for any insurable loss.

3. <u>Financial Risks</u>

Budgetary control and financial reporting	○ Budget does not match key objectives and priorities. ○ Decisions made on inaccurate financial projections or reporting. ○ Decisions made based on unreliable costing data or income projections. ○ Inability to meet commitments or key objectives. ○ Poor credit control. ○ Poor cash flow and treasury management. ○ Ability to function as going concern.	○ Link budgets to business planning and objectives. ○ Monitor and report in a timely and accurate way. ○ Use proper costing procedures for product or service delivery. ○ Ensure adequate skills base to produce and interpret budgetary and financial reports. ○ Agree procedures to review and action budget/cash flow variances and monitor and control costs. ○ Regularly review reserves and investments.
Pricing policy	○ Reliance on subsidy funding. ○ Unplanned loss from pricing errors. ○ Cash flow impact on other activities. ○ Loss of contracts if uncompetitive. ○ Affordability of services to beneficiary class.	○ Ensure accurate costing of services and contracts. ○ Compare with other service providers. ○ Notify and agree price variations with funders. ○ Monitor funder satisfaction.

		○ Develop pricing policy for activities including terms of settlement and discounts.
Borrowing	○ Interest rate movements. ○ Ability to meet. ○ Repayment schedule. ○ Security given over assets. ○ Regulatory requirements.	○ Appraise future income streams to service the debt. ○ Appraise terms (rates available fixed, capped, variable etc). ○ Appraise return on borrowing. ○ Use appropriate professional advice.
Guarantees to third parties	○ Call made under guarantee. ○ Lack of reserves or liquidity to meet call. ○ Consistency with objects and priorities.	○ Review approval and authority procedures. ○ Agree procedures to ensure consistency with objects, plans and priorities. ○ Ensure financial reporting of contingency and amendment to reserves policy.
Foreign currency	○ Currency exchange losses. ○ Uncertainty over project. ○ Costs. ○ Cash flow impact on operational activities.	○ Ensure proper cash flow management and reserves policy. ○ Use currency matching (cost to charity in home currency). ○ Consider forward contracts for operational needs (hedging).
Pension commitments	○ Under-funded defined benefit scheme. ○ Impact on future cash flows. ○ Failure to meet due dates of payment. ○ Regulatory action or fines.	○ Use actuarial valuations. ○ Review pension scheme arrangements (e.g. money ○ Purchase schemes). ○ Review procedures for admission to scheme and controls over pension administration.

Inappropriate or loss-making non-charitable trading activities	○ Resources withdrawn from key objectives. ○ Resources and energy diverted from profitable fund-raising or core activities. ○ Regulatory action, and accountability. ○ Reputational risk if publicised.	○ Monitor and review business performance and return. ○ Ensure adequacy of budgeting and financial reporting within the subsidiary or activity budget. ○ Review and agree adequate authorisation procedures for any funding provided by charity (prudence, proper advice, investment criteria). ○ Report funding and performance as part of charity's own financial reporting system. ○ Appraise viability. ○ Consider transfer of undertakings to separate subsidiary.
Investment policies	○ Financial loss through inappropriate or speculative investment. ○ Unforeseen severe adverse investment conditions. ○ Financial loss through lack of investment advice, lack of diversity. ○ Cash flow difficulties arising from lack of liquidity.	○ Review and agree investment policy. ○ Obtain proper investment advice or management. ○ Consider diversity, prudence and liquidity criteria. ○ Implement adequate reserves policy. ○ Use regular performance monitoring.
Protection of permanent endowment	○ Loss of future income stream or capital values. ○ Buildings unfit for purpose. ○ Income streams inappropriate to meet beneficiary needs.	○ Review and agree investment policy. ○ Obtain proper investment advice or management. ○ Consider diversity, prudence and liquidity criteria. ○ Use regular performance monitoring. ○ Ensure maintenance and surveyor inspection of buildings. ○ Review insurance needs.

Compliance with donor-imposed restrictions	○ Funds applied outside restriction. ○ Repayment of grant. ○ Future relationship with donor and beneficiaries. ○ Regulatory action.	○ Implement systems to identify restricted receipts. ○ Agree budget control, monitoring and reporting arrangements.
Fraud or error	○ Financial loss. ○ Reputational risk. ○ Loss of staff morale. ○ Regulatory action. ○ Impact on funding.	○ Review financial control procedures. ○ Segregate duties. ○ Set authorisation limits. ○ Agree whistle-blowing anti-fraud policy. ○ Review security of assets. ○ Identify insurable risks.
Counter party risk	○ Financial loss. ○ Disruption to activities or operations.	○ Research counter party's financial sustainability. ○ Contractual agreement. ○ Consider staged payments. ○ Agree performance measures. ○ Monitor and review investments. ○ Establish monitoring and review arrangements where counter party is the charity's agent 'conduit funding' arrangements.

4. <u>Environmental or External Factors</u>

Public perception	○ Impact on voluntary income. ○ Impact on use of services by beneficiaries. ○ Ability to access grants or contract funding.	○ Communicate with supporters and beneficiaries. ○ Ensure good quality reporting of the charity's activities and financial situation. ○ Implement public relations training/procedures.
Adverse publicity	○ Loss of donor confidence or funding. ○ Loss of influence. ○ Impact on morale of staff. ○ Loss of beneficiary confidence.	○ Implement complaints procedures (both internal and external). ○ Agree proper review procedures for complaints. ○ Agree a crisis management strategy for handling - including consistency of key messages and a nominated spokesperson.
Relationship with funders	○ Deterioration in relationship may impact on funding and support available.	○ Ensure regular contact and briefings to major funders. ○ Report fully on projects. ○ Meet funders' terms and conditions
Demographic consideration	○ Impact of demographic distribution of donors or beneficiaries. ○ Increasing or decreasing beneficiary class. ○ Increasing or decreasing donor class.	○ Profile donor base. ○ Profile and understand beneficiary needs. ○ Use actuarial analysis to establish future funding requirements.
Government policy	○ Availability of contract and grant funding. ○ Impact of tax regime on voluntary giving. ○ Impact of general legislation or regulation on activities undertaken. ○ Role of voluntary sector.	○ Monitor proposed legal and regulatory changes. ○ Consider membership of appropriate umbrella bodies.

5. <u>Compliance Risk (Law and Regulations)</u>

Compliance with legislation and regulations appropriate to the activities, size and structure of the charity	○ Fines, penalties or censure from licensing or activity regulators. ○ Loss of licence to undertake particular activity (see operational risks). ○ Employee or consumer action for negligence ○ Reputational risks.	○ Identify key legal and regulatory requirements. ○ Allocate responsibility for key compliance procedures. ○ Put in place compliance monitoring and reporting. ○ Prepare for compliance visits. ○ Obtain compliance reports from regulators (where appropriate) - auditors and staff to consider and action at appropriate level
Regulatory reporting requirements: Financial and other reporting requirements will be dependent on how the charity is constituted and may also vary according to funding arrangements	○ Regulatory action. ○ Reputational risks. ○ Impact on funding.	○ Review and agree compliance procedures and allocation of staff responsibilities.
Taxation	○ Penalties, interest and 'back duty' assessments. ○ Loss of income e.g. failure to utilise gift aid arrangements. ○ Loss of mandatory or discretionary rate relief. ○ Failure to utilise tax exemptions and reliefs.	○ Review PAYE compliance procedures. ○ Review VAT procedures. ○ File timely tax returns. ○ Understand exemptions and reliefs available (direct tax and VAT). ○ Take advice on employment status and contract terms and tax. ○ Implement budget and financial reporting identifying trading receipts, and tax recoveries.
Professional advice	○ Lack of investment strategy or management.	○ Identify and ensure access to professional advice.

	○ Failure to optimise fiscal position. ○ Contract risks. ○ Failure to address compliance risks.	○ Identify issues where advice is required. ○ Conduct compliance reviews