

The Association Of Charity Independent Examiners

Risk Management Policy

1.0 Introduction

- 1.1 The Risk Management Policy will be aimed at ensuring that the Charity achieves its objectives in the most effective way and available resources are used and managed correctly, directed at those objectives.

2.0 The Aims and Objectives of Risk Management

- 2.1 The Charity's overall risk management plan is aimed at:

- Protecting its staff and assets
- Managing risk in accordance with best practice and reducing the cost of risk
- Anticipating and responding to changing social, environmental and legislative requirements
- Raising awareness of the need for risk management
- Integrating risk management into the culture of the Charity
- Adopting legal compliance as a minimum standard
- Protecting the Charity's reputation

- 2.2 These aims and objectives will be achieved by:

- Maintaining a risk register
- Providing suitable information, training and supervision
- Maintaining effective communication and the active involvement of all staff
- Maintaining an appropriate incident reporting and recording system, with investigation procedures to establish cause and prevent recurrence
- Monitoring arrangements on an ongoing basis

3.0 The Structure and Administration of Risk Management

- 3.1 The Trustees have a fundamental role to:

- Set the tone and influence the culture of risk management within the Charity
- Determine the appropriate risk appetite or level of exposure for the Charity
- Approve major decisions affecting the Charity's risk profile or exposure
- Set policy and strategy for risk management
- Frequently monitor the management of significant risks to reduce the likelihood of unwelcome surprises or impact
- Satisfy itself that the less significant risks are being actively managed, with the appropriate controls in place and working effectively

- Annually review the Charity's approach to risk management and approve changes or improvements to key elements of its processes and procedures

3.2 The Management Team and Co-opted Committee Members will:

- Support and implement policies approved by the Charity
- Develop risk response processes, including contingency and business continuity programmes
- Provide adequate information in a timely manner to the Charity and its board on the status of risks and controls
- Develop risk management as part of the culture of the Charity
- Ensure that risk management is incorporated at the conceptual stage of projects as well as throughout a project
- Report early warning indicators to the board

4.0 Risk Identification

- 4.1 Risk is not only about adverse events, it is also about missed opportunities. All areas of activity within the Charity and partnerships with third party organisations should be considered together with what would stop them being as successful as they should. The key risks that the Charity faces will be those that would stop it achieving its objectives in these areas.
- 4.2 The Charity's corporate objectives and the legal and regulatory environment in which it operates, should be fully understood and regularly reviewed.
- 4.3 Consideration should be given to what would stop a project being as successful as it should. Risks can readily be identified through either brainstorming or a more structured approach.
- 4.4 The risks that have been identified should be recorded and incorporated, as necessary, into the corporate risk register.

5.0 Risk Estimation (Assessing Likelihood and Impact) – Charity Guidelines

- 5.1 Having identified the risks that the Charity is facing, they need to be prioritised into a manageable order so that action can be focused on the significant risks.
- 5.2 Each risk should be assessed in terms of the **likelihood** of its occurrence, and its **impact** on the Charity, should it occur.
- 5.3 Not all risks will affect the Charity with the same impact, and some are far more likely to occur within the Charity than others.

See Appendix 1.2

6.0 Risk Prioritisation

See Appendix 1.3

7.0 Risk Mitigation

- 7.1 Once risks have been identified and prioritised, the board will put in place appropriate actions to address them.

- 7.2 The board will assess the 'cost' of accepting the risk. This may be a financial cost or a lost opportunity. You may decide that accepting a particular risk is appropriate and no further action will be taken.
- 7.3 If further action is needed then there are three main options:
- avoid the risk
 - transfer all or part of the risk
 - mitigate the risk
- 7.4 A risk may be avoided by withdrawing from that area of activity but doing so may result in a missed opportunity.
- 7.5 A risk may be transferred wholly or in part to a third party, possibly through insurance or a partnership arrangement.
- 7.6 In the majority of cases, systems will be put in place to mitigate either the likelihood or the impact of the risk. Any system of risk mitigation should provide as a minimum:
- Effective and efficient operation of the Charity
 - Effective internal controls
 - Compliance with law and legislation

8.0 Risk Monitoring

- 8.1 The likelihood or impact of an identified risk can change for a number of reasons including:
- Nature of the risk has changed or is changing
 - Existing controls are inadequate or not functioning
 - New controls are introduced
- 8.2 The charity management team will review the risk register on a regular basis and notify the board of any changes.
- 8.3 The board will do a full review of the risk register on an annual basis and respond to any changes notified during the year.

9.0 Risk Reporting

- 9.1 Early warning indicators should be reported systematically and promptly to senior management to allow action to be taken. The frequency of reporting should be related to how quickly a risk can materialise and its likely impact.
- 9.3 Staff should:
- Understand their accountability for individual risks
 - Understand that risk management and risk awareness are a key part of the Charity's culture
 - Understand how they can enable continuous improvement of risk management response
 - Report systematically and promptly to senior management any perceived new risks or failures of existing control measures
- 9.4 Trustees of the Charity should:
- Report systematically and promptly to the management team, any perceived new risks or failures of existing control measures
 - Ensure appropriate levels of awareness throughout the Charity

9.5 The Charity should:

- Report annually on the effectiveness of the risk management process in the Charity

Appendix 1

1. Grouping Risks

There are many methods for grouping risks, starting from either categorising risk or analysing it using a functional approach. Consideration by category, for example, would include:

- **Strategic risks** – concern the long-term strategic objectives of the Charity. They can be affected by such areas as capital availability, legal and regulatory changes, reputation and changes in the physical environment. For example, failure to recognise sector message.
- **Operation risks** – concern the day-to-day issues that the organisation is confronted with as it strives to deliver its strategic objectives. For example, failure to maintain timely and accurate learner data.
- **Financial risks** – concern the effective management and control of the finances of the Charity and the effects of external factors such as interest rate movement and other market exposures. For example, failure to balance budget.
- **Compliance risks** – concern such issues as health and safety, environmental, trade descriptions, consumer protection, data protection, employment practices and regulatory issues. For example, breach of employment laws.

2.0 Scoring of impact and likelihood of risk of it occurring should be scored as follows:

- **Likelihood**

For each of the risk you have listed assess the likelihood of their occurrence on the following scale:

1. remote
2. unlikely
3. possible
4. probably
5. highly probably

- **Impact (financial/reputational)**

Also assess their impact on the following scale:

1. Insignificant
2. minor
3. moderate
4. major
5. extreme/catastrophic

Financial and Reputational Impact are scored separately and the two scores are added to give the total Impact score

Multiply the scores for likelihood and impact (Financial and Reputational) and then rank the risk by numerical value, e.g.

Major fire	impact 5	likelihood 2	total = 10
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Small scale theft impact1 likelihood 3 total = 3

3. Risks should be prioritised as follows:

Risk Score	Prioritisation	Colour	Action
1 to 14	Low	Green	Keep under review
15-24	Medium	Amber	Consider action or contingency plan
>25	High	Red	Immediate action

“Extracted from Charity Commission documents”