



Guidance on Charities and Risk Management - (GoPI3Ks 1176289)

Risk Management Policy Overview

This guidance outlines the process of identifying and managing the possible and probable risks that our charity may face throughout its operational life. Effective risk management is a key element of good governance and the successful running of the charity. Responsibility for this policy rests with the trustees, who will review it to reflect any changes within the charity, wider society, or relevant government policies

By managing risks effectively, trustees can help ensure that:

- **Informed Decision-Making:**
Significant risks are identified, regularly monitored, and clearly communicated, enabling trustees to make informed decisions and take timely, appropriate action.
- **Opportunity Development:**
The charity can pursue and capitalize on opportunities with greater confidence, knowing that potential risks are being effectively managed.
- **Enhanced Strategic Planning:**
Forward planning and long-term strategies are strengthened, supported by a clear understanding of risks and how to mitigate them.
- **Greater Mission Success:**
The charity is better positioned to achieve its objectives, as potential obstacles are anticipated and managed proactively.

Types of possible risks specific to GoPI3Ks:

Risk category

- **Governance risks:**
 - The charity lacks direction, strategy and forward planning – no clear objective
 - trustee body lacks relevant skills or commitment – defining of job descriptions
 - conflicts of interest – see our guidance on this
 - Loss of key staff – experience or loss of skill
- **Operational risks:**
 - Recruitment of trustees and volunteers
 - Service provision - customer satisfaction
 - Fundraising
 - Disaster recovery and planning
- **Financial risks**

- Fundraising in times of economic change
- Changes in attitude to donating
- Dependency on limited income sources
- **External risks:**
 - Demographic changes such as an increase in the number of funding applications
 - Public Perception
 - Changing government policy
 - Adverse publicity
- **Compliance with law and regulation**
 - Poor knowledge of any changes in regulatory requirements of particular activities (eg fund-raising, running of care facilities).

Assessing impact of each of the risks outlined above:

Impact:

Descriptor	Score	Impact on service & reputation
Insignificant	1	• no impact on service • no impact on reputation • complaint unlikely • litigation risk remote
Minor	2	• slight impact on service • slight impact on reputation • complaint possible • litigation possible
Moderate	3	• some service disruption • potential for adverse publicity - avoidable with careful handling • complaint probable • litigation probable
Major	4	• service disrupted • adverse publicity not avoidable (local media) • complaint probable • litigation probable
Extreme/catastrophic	5	• 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

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

How can a risk be managed:

On the Charity Commission website, it gives an example of four basic strategies that can be used to manage an identified risk:

<https://www.gov.uk/government/publications/charities-and-risk-management-cc26/charities-and-risk-management-cc26#annex1>

Summary:

1. Transfer the Risk

- Shifting the financial consequences of a risk to a third party, typically through:
 - Insurance policies
 - Outsourcing of certain activities or services

2. Avoid the Risk

- Ceasing or avoiding the risky activity entirely, thereby eliminating the risk.
 - Example: A charity decides not to host a fireworks event due to potential injury risks.

3. Manage or Mitigate the Risk

- Reducing the likelihood or impact of the risk through proactive measures.
 - Examples:
 - Implementing safety protocols
 - Staff training
 - Installing fire alarms

- Following safeguarding policies

4. Accept the Risk

- Acknowledging that the risk is unavoidable but choosing to continue the activity while managing its consequences.
 - Examples:
 - Taking out insurance with a high voluntary excess
 - Allowing public access to a village hall while putting measures in place (e.g., signage, risk assessments)

Potential risk and impact and steps to mitigate based on possible risks that GoPI3Ks may face:

- **Governance risks:**

Potential risk	Potential impact	Steps to mitigate risk
The charity lacks direction, strategy and forward planning	• The charity has no clear objectives or plans • Issues are not addressed with any certainty with no record of outcome • Needs of our service users are not fully addressed or met. • No management of financial difficulties • A loss of reputation	• The need to create a specific plan moving forward which sets out the key aims, objectives and policies • To develop a plan for budgeting and finances • Involve other trustees where appropriate to share the load • Monitor performance as a whole (financial/operational) • Ask for feedback from service users/funders/volunteers
Trustee body lacks relevant skills or commitment	• The purpose and activities of the charity are not met • Important decisions are made without proper consultation with trustees • A sense of apathy amongst staff • Poor decision making is reflected in the service delivery	• Review of the needed skills and agree these • Record what each job entails and create a framework to identify • Offer a trustee training • Have an agreement on recruitment with reviews

Conflicts of interest	• The charity cannot implement its agenda, purposes and interests • Relevant considerations are not given when making decisions • Reputation maybe impacted • Individuals maybe benefiting	• A statement that any potential conflicts must be brought to our attention and a protocol agreed • Agreement and procedures of standing down on decisions where there is a conflict • The recruitment and selection processes are reviewed annually or more frequently if issues arise
Loss of key staff	• A loss of skills and experience • Impact on the operational running of key activities and priorities • Loss of knowledge and expertise • Gap left within the charity	• Planning for succession • records and details made on the processes, projects each person does • Develop and implement training programmes • A period of notice and a handover is agreed and implemented • An agreement of the processes of recruitment

- **Operational Risks:**

Potential risk	Potential impact	Steps to mitigate risk
Volunteers	• Lack of support and training lead to problems • Service users do not receive same support as given by key staff • Lack of adequate vetting and reference procedures • High dependency on recruitment	• An agreed record of the role and skills needed, which is periodically reviewed • To agree and review any recruitment procedures • Develop procedures that are reviewed by the trustees • Develop programs to motivate and encourage volunteers
Service provision - customer satisfaction	• Service user complaints • loss of income • loss of significant donors • Claims of negligence and lack of care • Risk to reputation	• Agree quality control procedures • Make sure complaints procedures are up to date and implement • Develop a bench mark for the services we provide

Fundraising	• Turnover is not satisfactory • Inability to carry out aims and objectives • Compliance with law and regulation	• Focus on budgeting in relation to grant making where possible • Review of regulatory compliance • Monitor the outcomes in relation to the financial incomings • Develop and implement awareness of fundraising possibilities and positive outcomes it provides for all
Disaster recovery and planning	• Computer system failures or loss of data • Destruction of property where equipment, records are kept through fire, flood or similar damage	• Plan and agree IT recovery plan • Put in place a backup of the data and security measures • Review insurance cover • Create disaster recovery plan

• **Financial Risks:**

Potential risk	Potential impact	Steps to mitigate risk
Fundraising in times of economic change	• Inability to offer larger grants • Impact on operational activities and fulfilling aims and objectives	• Ensure adequate cash flow projections needed (prudence of assumptions) • Focus on budgeting in relation to grant making where possible • Review of regulatory compliance • Monitor the outcomes in relation to the financial incomings • Develop and implement awareness of fundraising possibilities and positive outcomes it provides for all
Changes in attitude to donating	• Reduced income • Inability to meet operational activities	• Raise awareness of the importance of donating • Implement adequate reserves policy • Consult with trustees & volunteers for ideas

Dependency on limited income sources	• Reduction in unreserved funds • Inability to carry out aims and objectives	• Identify major dependencies e.g.: public fundraising • Discuss with trustees about restricted funds and implement adequate reserves policy where appropriate • Consider other funding options and create a plan of action
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• **Environmental or external factors:**

Potential risk	Potential impact	Steps to mitigate risk
Public perception	• Impact on voluntary donations from the public • Impact it has on service users • Effect it could have on applying for grants and/or funding from outside sources	• Effectively communicate with donators/supporters and service users • Keep all records of charities activities, aims and financial situation up to date and of good quality • Effectively and positively engage with the public • Source information from the wider community
Adverse publicity	• Loss of donor confidence or funding • Loss of influence or relevance • Loss morale of staff/volunteers • Loss of service user confidence	• Implement complaints procedures (both internal and external) • Review and agree procedures for complaints • Develop, agree and implement a management strategy – to include: the consistency of key messages and a nominated spokesperson
Demographic consideration	• Impact of demographic distribution of donors or service users • Increasing or decreasing service user demographic • Increasing or decreasing donor demographic	• Profile and understand donor base • Understand service users' needs with detail on their demographics
Government policy	• Availability of contract and grant funding • Impact of tax regime on voluntary giving	• Monitor and adapt to proposed legal and regulatory changes • Consider membership of

	• Impact of general legislation or regulation on activities undertaken • Role of voluntary sector	appropriate umbrella bodies
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- **Compliance risk:**

Potential risk	Potential impact	Steps to mitigate risk
Compliance with legislation and regulations appropriate to the activities, size and structure of the charity	• Fines, penalties or censure from licensing or activity regulators • Volunteer or service user action for negligence • Risks to reputation	• Identify key legal and regulatory requirements • Allocate to appropriate staff/trustee responsibility for key compliance procedures • Implement 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

If any major risk is identified:

Below are examples of possible actions trustees might take to manage major risks—either by reducing the likelihood of the risk occurring or by minimizing the impact if it does:

1. Avoiding the Risk

- Action: Stop the activity altogether.
- Example: Withdrawing from operations in a high-risk country.

2. Transferring the Risk

- Action: Pass the risk to a third party.
- Example:
 - Using a trading subsidiary.
 - Outsourcing services.

- Entering contractual agreements where the third party bears the liability.

3. Sharing the Risk

- Action: Share responsibility and potential loss.
- Example: Joint venture projects where risk and reward are shared.

4. Limiting Exposure to the Risk

- Action: Contain the extent of the potential impact.
- Example:
 - Holding financial reserves.
 - Using foreign exchange forward contracts.
 - Making phased commitments to large projects.

5. Reducing or Eliminating the Risk

- Action: Implement internal controls to prevent or minimize the risk.
- Example:
 - Financial controls.
 - Recruitment processes.
 - HR and personnel policies.

6. Insuring Against the Risk

- Action: Purchase insurance to cover potential losses.
- Example:
 - Employer's liability.
 - Public liability.

- Theft or fire.

7. Accepting the Risk

Action: Acknowledge and monitor the risk without taking immediate action.

- Example:
 - Minor operational risks (e.g. running out of stock temporarily).
 - Loss of small petty cash amounts.

Disaster recovery plan:

Additional processes for consideration of high risk events

- To allow to the charity to function again and limit the disruption for service users, six steps to establish an effective disaster recovery plan are likely to be as follows:

1 First steps	• commit to planning across the charity • develop a plan by a team representing all functional areas of the charity • plan as a project if appropriate
2 Impact/risk assessment	• identify all major risks • each risk to be given an impact and likelihood rating • consider overall risk profile of charity
3 Drawing up the plan	• establish milestones to move charity from disaster to normal operations • start with immediate aftermath • outline what functions need to be resumed and in what order • plan should identify key individuals and their roles and duties
4 Testing	• plan process of testing properly • reproduce authentic conditions as far as possible • plan tested by the key individuals identified in the plan • document test procedures and record results • consider amendments to plan
5 Training	• make all charity trustees, staff and volunteers aware of plan and their own duties and responsibilities • stress the importance of planning even if the disaster appears to be a remote likelihood • get feedback from all to ensure that duties and responsibilities are understood

6 Updating and maintaining	• plan should be updated to be applicable to current activities • give someone responsibility for updating plan and communicating any changes • all changes should be fully tested • key staff informed of changes in duties and responsibilities
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Risk register template with relevance to GoPI3Ks with examples of use, taken from the Charity Commission website:

<https://www.gov.uk/government/publications/charities-and-risk-management-cc26/charities-and-risk-management-cc26#annex1>

“Risk management is aimed at reducing the ‘gross level’ of risk identified to a ‘net level’ of risk, in other words, the risk that remains after appropriate action is taken”.

“This template has been created to illustrate a practical way of recording in a risk register how this reduction in level might be achieved by the charity”.

“Trustees need to form a view as to the acceptability of the net risk that remains after management”.

Example:

Risk area/risk identified	unsatisfactory fundraising
Likelihood of occurrence (score)	probable (4)
Severity of impact (score)	major (4)
Overall or ‘gross’ risk	high (20)
Control procedure	• financial appraisal of new projects • benchmarking of returns achieved • budget reporting by fundraising activity
Retained or ‘net’ risk	medium
Monitoring process	• financial reporting by fundraising activity • quarterly reporting by fundraising manager to trustees/CEO
Responsibility	fundraising manager/CEO
Further action required	• new initiatives to be approved by trustees unless included in current business plan • review of regulatory compliance of current methods
Date of review	• when appropriate • next trustee meeting

Successful Risk Management will be reviewed by Trustees and include the following:

Periodic Monitoring and Assessment – Key Elements

The successful monitoring and assessment process will ensure:

1. Identification and Evaluation of New Risks

- New risks are promptly identified, reported, and appropriately evaluated.

2. Risk Consideration in New Projects

- Risk factors are assessed during the appraisal of any significant new projects or initiatives before they are committed to.

3. Reporting of Control Failures

- Any major failures in internal control systems are clearly reported and corrective actions are taken in a timely manner.

4. Clarity of Responsibilities

- Individuals involved understand their roles in both implementing and monitoring control systems.

5. Ongoing Risk Response

- Additional or follow-up actions needed to address risks are identified and implemented as well as to establish how previously identified risks have changed.

6. Annual Trustee Review

- The entire risk management process is reviewed annually by trustees to ensure its adequacy and effectiveness.

7. Timely Reporting to Trustees

- Trustees receive relevant, up-to-date interim reports that allow them to monitor risk management performance throughout the year and this needs to be embedded in to the running of the charity.

Trustees can further monitor risk by:

- 1. Alignment with Objectives**
Ensuring that the identification, assessment, and mitigation of risks are directly linked to the achievement of the charity's operational and strategic objectives.
- 2. Reflecting Risk Appetite**
Ensuring that the risk assessment process reflects the trustees' collective view of acceptable and manageable levels of risk.
- 3. Oversight of Risk Management**
Reviewing and considering the outcomes of risk identification, evaluation, and mitigation activities on a regular basis.
- 4. Monitoring Areas of Concern**
Receiving interim reports and updates on areas where risks remain high or where further action is required.
- 5. Responding to External Changes**
Regularly monitoring and responding to external factors such as new legislation, regulatory changes, or updated requirements from funders and stakeholders.
- 6. Financial Risk Consideration**
Taking into account the financial impact of risks as part of operational budget planning, forecasting, and performance monitoring.