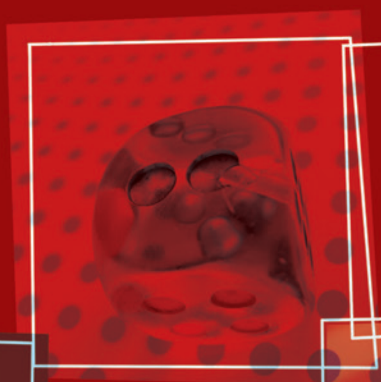
reducing the risk

a resource guide for community and voluntary organisations

second edition



The solid foundations series

Preface

Life is risky and community/voluntary/charitable organisations are not immune from risk. In fact, they operate in particularly high risk environments, coping with uncertain funding streams, having vulnerable client groups, being dependent on voluntary input, dealing with continuously changing public representatives and civil servants, and so on and so forth. Risk cannot be avoided, but most types of risk can be anticipated and therefore planned for. By properly managing risk, the negative effects of hazards can be reduced. It is important that people who run not-for-profit organisations, whether as volunteers or paid staff, are aware of the risks involved and feel comfortable dealing with them.

With the Charities Act now in place, organisations will have to prove greater accountability, provide evidence that they are managing their affairs prudently and show that they have taken adequate steps to mitigate risk. If they have not already done so, the time is right now for organisations to put in place risk management strategies that suit their needs.

Reducing the Risk is part of a range of training and guidance services provided by The Wheel. It follows on from our popular publication *Solid Foundations: a resource guide for building strong and effective organisations in the community and voluntary sector.* It is accompanied by sister publications on governance, human resources, outcomes and collaboration.

The guide has been designed to help organisations:

- Recognise the importance of managing risk in a structured manner
- Identify the kind of risks to which they are exposed
- Take a logical step-by-step approach to risk management
- Have access to a range of signposts to further information.

We hope you find it useful. If you have any additional information for future editions, or any comments or questions whatsoever, please do not hesitate to contact us.

Deirdre Garvey

Deirdre Garvey

Chief Executive Officer, The Wheel

Publication details

Based on The Wheel gratefully acknowledges two organisations in the United Kingdom for their permission (subject to copyright regulations) to use their resources in the preparation of this document. They are the Scottish Council for Voluntary Organisations for its 2007 publication *Getting to Grips with Governance* (updated in 2013 as *Guide to Good Governance)* and the Charity Commission for its 2007 publication *Charities and Risk Management* (updated in 2010).

Produced by Sandra Velthuis, Whitebarn Consulting

Designed by Gráinne Murray

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The Wheel is a national support and representative body for community, voluntary and charity organisations across Ireland. It provides a wide range of information and support services, training and advice to individuals and organisations involved in community and voluntary activity. The Wheel also represents the shared interests of its members and the wider community and voluntary sector to government and other decision-makers.

Disclaimer

Our goal is to provide comprehensive, timely and accurate information. This publication contains references and pointers to information kept or provided by other organisations. We therefore cannot guarantee their accuracy. It is our policy to correct any errors brought to our attention. Comments and suggestions are always welcome. Note that this document is not a replacement for seeking legal advice should that be necessary.

contents

Who this guide for

This guide has been prepared first and foremost to meet the needs of established organisations in the Irish community and voluntary sector. However, its principles can be applied to organisations of all ages and sizes. The larger and more complex organisations become, the greater their need for comprehensive risk management strategies.

The guide has been written primarily for members of governing bodies and senior staff, as these persons have principal responsibility for ensuring that risk is managed within their organisations. However, effective risk management needs to be embedded in an organisation, so the content applies to everyone with a stake in the organisation.

We hope that everyone using this guide will find something that meets his or her current interest or situation.

How to use this guide

The guide is divided into three chapters:

- One: Risk in the community and voluntary sector
- Two: The risk management process
- Three: What next?

The first two chapters contain a general discussion of the area, with 'top tips' and questions (in speech bubbles) to help readers relate the topics covered to their own experience. The final chapter provides a list of useful resources and publications and a glossary of relevant terminology. Detailed contents pages are also provided.

Although the guide provides examples of risks and suggests tools for risk management, it is stressed that each organisation must tailor its approach to assessing and dealing with risk, so that the unique circumstances of each organisation are considered in full.

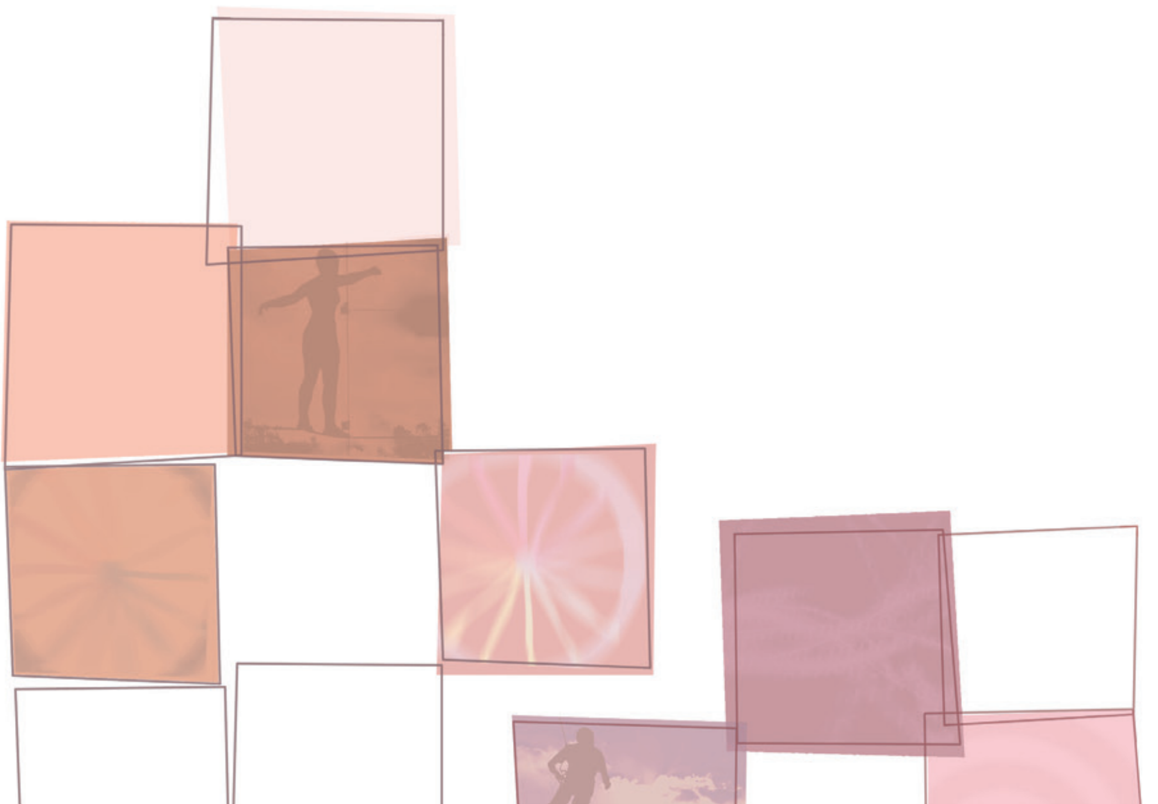
CHAPTER 1 :
Risk in the community and voluntary sector

1.1 Introduction

This introductory chapter sets the scene for risk management in the community and voluntary sector. It defines risk and risk management and outlines responsibilities for the management of risk within organisations. It then provides a detailed overview of the potential risk areas that organisations in the sector should consider, the potential effects of the risks within these broad areas, and the steps that might be taken towards mitigation, thereby reducing the risks.

1.2 What is risk?

Risk can be defined as a situation involving exposure to danger, or a threat requiring something to be protected. It is an inherent feature of all activity, and it can arise from inaction as well as action. Usually, risk is perceived negatively; the likelihood that something unpleasant or unwelcome will happen. In organisational terms, risks are normally seen as the possibilities, great or small, that the organisation will be damaged in some way as a result of a particular hazard. For example, a trailing cable is a hazard with a risk of employee injury, litigation and direct financial costs. Whilst this is certainly true, risk can also be viewed in a more positive manner; for instance, as a chance to improve internal practices or to seize external opportunities when they arise.



1.3 What is risk management?

Risk is an everyday part of life in the community and voluntary sector, and managing it effectively is essential if organisational goals are to be achieved and organisational assets are to be safeguarded. Risk management is sometimes perceived as a very difficult and potentially overwhelming process. However, it is something that organisations already do on a daily basis. For example, when organising an outdoor fundraising event, such as a summer fête, the organisers reflect on how to ensure the stalls are sturdy, cash takings are kept safe, children's play activities are appropriately supervised, contingency plans are in place for adverse weather, and so on. In other words, they are adopting a practical approach to dealing with risk.

Ideally, all organisations should adopt a structured approach to managing all the significant risks that they are exposed to and this requires time and care. Methods and tools for doing this are provided in chapter two. However, this does not mean that there is a standard one-size-fits-all approach to risk management for all organisations. The larger and more complex an organisation is, the more complex its risk management strategy is likely to be.

Organisations, especially smaller ones, should not be put off by a concern that they might not get it 100% right in the first instance. A partially effective risk management strategy is infinitely better than none.

1.4 Responsibilities for risk management

As risk affects everyone who is engaged with an organisation, dealing with risk is something that applies to all of them. However, as with other organisational issues, the governing body (board, committee, etc) arguably has the most significant role to play. Thinking about risk is an integral part of the governance role and the governing body is ultimately responsible for ensuring a proper risk management strategy is in place. Managerial staff members (if there are such persons in the organisation) are responsible for ensuring the risk management strategy is implemented, and other staff and volunteers are responsible for complying with the strategy measures. This is likely to involve communicating relevant parts of the strategy to clients, members and third parties.

*** TOP TIPS ***

You may wish to consider setting up a risk management or audit subcommittee that undertakes regular reviews of internal control systems. However, if you choose to do so, you should ensure that the governing body is actively involved, and that it reviews risk management strategies on a regular basis, as it is ultimately responsible for risk management.

1.5 Potential risk areas

The community and voluntary sector in Ireland is by its nature diverse. Different activities, funding bases and structures expose different organisations to different types of risk at different levels. The following list[1] gives indications of some of the main risk areas that governing bodies may need to consider. Illustrative details of potential impact and potential controls that might mitigate the risk are also provided. Please note that the list is neither prescriptive, nor exhaustive, and is in no way a substitute for an organisation undertaking its own risk identification process.

[1] Adapted from Charity Commission (England and Wales), *Charities and Risk Management*, 2010 ©

Is risk management a topic that receives ongoing attention in your organisation?

Is it on the agenda of your organisation's governing body meeting at least once a year?

Does anyone have defined responsibilities for managing risk in your organisation?

1.5.1 Governance and management risk

Potential risk	Potential impact	Potential risk mitigation steps
Organisation lacks direction and forward planning	• Organisation drifts with no clear objectives, priorities or plans • Issues addressed on a piecemeal basis with no strategic reference • Needs of beneficiaries not fully addressed • Financial management difficulties • Loss of reputation	• Create strategic plan which sets out key aims and objectives • Create work plans with targets drawn from strategic plan • Monitor financial and operational performance • Seek feedback from beneficiaries and funders
Governing body lacks relevant skills and commitment	• Organisation fails to achieve purpose • Decisions are made that bypass the governing body • Resentment or apathy amongst paid staff • Poor value for money on service delivery	• Undertake skills review of current governing body members • Provide relevant training • Develop role descriptions for all governing body members • Recruit new governing body members with relevant skills and commitment
Governing body dominated by one or two individuals or by connected individuals	• Governing body cannot operate effectively as a strategic entity • Decisions are made outside of governing body • Conflicts of interest/loyalty • Pursuit of personal agendas • Culture of secrecy or defence • Arbitrary overriding of control mechanisms	• Consider structure of governing body and its independence • Agree mechanisms to deal with potential conflicts of interest/loyalty • Review recruitment and appointment processes and their constitutional validity • Improve procedural framework for meetings and recording decisions

1.5.1 Governance and management risk (continued)

Potential risk	Potential impact	Potential risk mitigation steps
Governing body members benefiting personally from the organisation (for example, through remuneration)	• Reputation, morale and ethos affected • Impact on overall control environment • Conflicts of interest • Regulatory action	• Ensure legal authority for payment or benefit • Consider alternative staffing arrangements • Set up policies and procedures to authorise expenses and payments • Instigate procedures, independent from the member in question, to establish fair remuneration (remuneration committee, benchmarking exercise, etc)
Conflicts of interest	• Organisation hampered in its ability to pursue own interests and agenda • Decisions may not be based on relevant considerations • Impact on reputation	• Establish written protocol for disclosure of potential conflicts of interest • Have procedures for standing down on certain decisions • Ensure appropriate recruitment and selection processes
Organisational structure difficulties	• Lack of information flow and poor decision making procedures • Governing body too remote from operational activities • Uncertainties about roles and duties • Decisions made at inappropriate level • Excessive bureaucracy • Being unincorporated; governing body members are held personally liable if things go wrong	• Draw an organisational chart clearly outlining roles and interrelationships • Delegate and monitor in a way that is consistent with good practice and constitutional and legal requirements • Review organisational structures, including consideration of incorporation • Arrange insurance for directors and officers

1.5.1 Governance and management risk (continued)

Potential risk	Potential impact	Potential risk mitigation steps
Activities potentially outside objects, powers or terms of funding	• Potential breach of trust and regulatory action • Loss of funds available to intended beneficiary • Loss of funder confidence • Loss of beneficiary confidence • Liabilities to repay funders • Potential taxation implications	• Establish protocol for reviewing new projects to ensure consistency with objects, powers and terms of funding • Set up financial systems to identify restricted funds and their application
Loss of key governing body members and key staff	• Experience and skills lost • Operational impact on key projects and priorities • Loss of contact base and corporate knowledge	• Undertake succession planning • Document systems, plans and projects on an ongoing basis • Ensure adequate notice periods and handovers
Accuracy, timeliness and relevance of reporting to governing body	• Inadequate information resulting in poor quality decision making • Failure of governing body to fulfil its control functions • Governing body becoming increasingly remote and ill-informed	• Have proper strategic planning processes, including the setting of targets and budgets • Ensure timely and accurate project reporting • Ensure timely and accurate financial reporting • Ensure proper project assessment and authorisation procedures • Maintain regular contact between governing body members and managerial staff

1.5.2 Operational risk

Potential risk	Potential impact	Potential risk mitigation steps
Contracts for service/service level agreements	• Onerous terms and conditions • Liabilities for non-performance • Non-compliance with organisation's objects	• Have project appraisal and costing procedures in place • Have proper authorisation procedures in place • Get professional advice on terms and conditions • Ensure performance monitoring arrangements are in place • Seek insurance
Service user satisfaction	• Complaints from service users • Loss of fee income • Loss of significant contracts or claims under the contract • Negligence claims • Risks to reputation	• Set up quality control procedures • Have and use proper complaints procedures • Benchmark service
Project or service development	• Compatibility with objects, plans and priorities • Funding and financial viability • Skills availability	• Have project appraisal and costing procedures in place • Have proper authorisation procedures in place • Ensure monitoring and reporting procedures are in place
Competition	• Reduced profile • Loss of contract income • Reduced profitability of other income • Reduced fundraising potential	• Monitor performance and quality of service • Review market and methods of service delivery • Draw up fundraising strategy • Maintain regular contact with funders • Heighten public awareness and profile

1.5.2 Operational risk (continued)

Potential risk	Potential impact	Potential risk mitigation steps
Suppliers	• Overly dependent on a key supplier • Lack of suppliers to meet operational objectives • Non-competitive pricing/quotes • Insufficient buying power	• Use competitive tendering for larger contracts • Have procedures for obtaining quotations • Set up a list of authorised suppliers • Monitor quality and timeliness of provision • Use service level agreements • Use buying consortia or reductions offered by umbrella groups
Capacity and use of resources	• Underutilised or lack of building/office space • Plant/equipment obsolescence impacting on operational performance • Mismatch between staff allocations and key objectives • Spare capacity not being capitalised upon	• Set up a building inspection programme • Have in place a repair and maintenance programme • Ensure there is a budget for capital expenditure • Undertake an efficiency review
Security of assets	• Loss or theft • Damage • Infringements of intellectual property rights	• Review security arrangements • Create asset register and set up an inspection programme • Set up adequate facility management arrangements • Ensure safe custody arrangements for important documents • Have procedures in place to manage intellectual property • Review insurance arrangements

1.5.2 Operational risk (continued)

Potential risk	Potential impact	Potential risk mitigation steps
Fundraising	• Unsatisfactory returns • Reputational risk, depending on fundraising methods used • Actions of agents and commercial fundraisers • Compliance with legal regulations	• Have appraisal, budgeting and authorisation procedures in place • Review regulatory compliance • Monitor adequacy of financial returns achieved • Review complaints in relation to fundraising • Report fundraising activities in annual report • Adopt the *Statement of Guiding Principles for Fundraising* (see 3.2.5)
Employment	• Employment disputes • Claims for injury, stress, harassment, bullying, unfair dismissal, etc • Equality issues • Adequacy of staff training • Child/vulnerable adult protection issues • Low morale	• Undertake fair and thorough recruitment, selection and appointment processes, including vetting where necessary • Have systems for appropriate job training and development • Have in place feedback and appraisal procedures • Explore employment insurance options
High staff turnover	• Loss of experience or technical skills • Recruitment costs, including lead time • Training costs • Operational impact on morale and service delivery	• Have fair and open competition for key posts • Undertake performance appraisals and have effective feedback systems • Focus on job satisfaction • Consider rates of pay, training and working conditions • Conduct exit interviews

1.5.2 Operational risk (continued)

Potential risk	Potential impact	Potential risk mitigation steps
Volunteers	• Recruitment problems • Retention problems • Dependency • Equality issues • Adequacy of volunteer training • Child/vulnerable adult protection issues • Low morale	• Undertake fair recruitment, selection and appointment processes, including vetting where necessary • Have in place systems for appropriate training and supervision • Motivate volunteers by ensuring they all have a defined role and by recognising their input
Health, safety and welfare	• Injury or death of staff, volunteers, or others • Other welfare implications • Product or service liability • Affecting ability to operate	• Comply with laws and regulations, including having a Safety Statement • Ensure health and safety training is undertaken • Put in place a compliance officer • Ensure monitoring and reporting procedures are in place
Systems documentation	• Lack of awareness of policies and procedures • Actions taken without proper authority	• Ensure policies and procedures are properly documented and communicated • Undertake an audit and review of systems

1.5.2 Operational risk (continued)

Potential risk	Potential impact	Potential risk mitigation steps
Information and communications technology	• Lack of computer systems • Systems fail to meet operational needs • Failure to innovate or update systems • Lack of technical support	• Appraise system needs and options • Have systems in place for development, authorisation, implementation and security • Use service and support contracts • Consider outsourcing technical support
Disaster planning	• Computer systems failure and/or loss or corruption of valuable data (for example, donor database) • Destruction of property, equipment and records through fire, flood or similar damage	• Ensure data backup procedures and precautions are followed • Have a data recovery plan in place • Have a well-developed and tested disaster plan in place

1.5.3 Financial risk

Potential risk	Potential impact	Potential risk mitigation steps
Budgetary control and financial reporting	• Budget does not match key objectives and priorities • Decisions made on inaccurate financial projections, costing data or reporting • Inability to meet commitments • Poor credit control • Poor cash flow • Inability to function as a going concern	• Ensure budgets are linked to planned objectives • Ensure timely and accurate monitoring and reporting • Ensure an adequate skills base to produce and interpret financial reports • Have procedures to review and action budget and cash flow variances
Reserves policy	• Inability to meet planned objectives and commitments • Lack of liquidity to respond to new needs or requirements • Risks to reputation if policy cannot be justified	• Have a reserves policy and ensure it is linked to business plans, activities and identified financial and operating risks • Review policy regularly
Cash flow sensitivity	• Inability to meet commitments • Lack of liquidity to cover variances • Impact on operational objectives	• Be prudent in assumptions when projecting cash flows • Identify major sensitivities in cash flows • Ensure adequate information flow from staff • Ensure adequate monitoring and reporting arrangements
Dependency on income sources	• Cash flow and budget impact of loss of income source	• Identify major dependencies • Ensure an adequate reserves policy • Draw up diversification plans

1.5.3 Financial risk (continued)

Potential risk	Potential impact	Potential risk mitigation steps
Borrowing	• Interest rate movements • Ability to meet repayment schedule • Security given over assets • Regulatory requirements	• Appraise future income streams • Appraise available terms/rates • Appraise return on borrowing • Seek proper financial advice
Pension commitments	• Under-funded defined benefit scheme • Impact on future cash flows • Failure to meet due dates of payments • Regulatory action or fines	• Get actuarial valuations • Review pension scheme arrangements
Inappropriate or loss-making fundraising activities	• Resources withdrawn from key objectives • Resources and energy diverted from profitable fundraising • Accountability issues • Risk to reputation	• Monitor and review business performance and return • Ensure adequate budgeting and financial reporting for each specific activity • Appraise viability of fundraising activities • Ensure adequate authorisation procedures for any funding provided by the organisation • Include funding and performance in financial reporting system

1.5.3 Financial risk (continued)

Potential risk	Potential impact	Potential risk mitigation steps
Investment policy	• Financial loss through speculative investment or lack of diversity • Financial loss through lack of investment advice • Cash flow difficulties arising from lack of liquidity	• Draw up and implement an investment policy • Seek proper investment advice • Ensure diversity, prudence and liquidity criteria • Ensure a reserves policy is in place
Complying with donor-imposed restrictions	• Funds being applied outside restrictions • Repayment of grant • Future relationship with donor and beneficiaries affected • Regulatory action	• Set up systems to identify receipts of restricted income • Ensure good budget control, monitoring and reporting arrangements • Adopt the *Statement of Guiding Principles for Fundraising* (see 3.2.5)
Fraud or error	• Financial loss • Risk to reputation • Regulatory action • Impact on funding	• Ensure proper financial control procedures • Segregate duties • Set authorisation limits • Improve security of assets • Get insurance

1.5.4 Compliance risk

Potential risk	Potential impact	Potential risk mitigation steps
Lack of compliance with legislation and regulation (own governing document, employment law, equality law, etc)	• Fines, penalties, censure • Loss of licence to undertake a particular activity • Employee or consumer action for negligence • Risk to reputation	• Identify key legal and regulatory requirements • Allocate responsibility for key compliance procedures • Undertake compliance monitoring and reporting • Prepare for compliance visits • Consider reports from regulators, auditors and others, such as staff, and action at appropriate level
Regulatory reporting requirements (for example: Companies Registration Office, Revenue Com-missioners, new Charities Regulator)	• Regulatory action • Reputation risk • Impact on funding	• Ensure compliance procedures are in place • Allocate staff responsibilities
Taxation	• Penalties and interest • Loss of income through failure to utilise tax reliefs • Reputational risk	• Ensure PAYE compliance procedures are in place • Seek advice on employment status and contract terms • Understand tax exemptions and reliefs available • Identify tax recoveries in financial reporting
Professional advice (auditor, solicitor, financial advisor, etc)	• Lack of investment strategy or management • Failure to optimise fiscal position • Contract risks • Failure to address compliance risk	• Identify issues where advice is required • Seek and access professional advice • Undertake compliance reviews

1.5.5 Environmental risk

Potential risk	Potential impact	Potential risk mitigation steps
Public perception	• Impact on voluntary income • Impact on voluntary input • Impact on use of service by beneficiaries • Ability to access grants or contract funding affected	• Communicate with supporters and beneficiaries • Produce and circulate a quality annual report • Ensure good public relations
Adverse publicity	• Loss of donor confidence or funding • Loss of influence • Loss of beneficiary confidence • Impact on staff morale	• Have effective internal and external complaints procedures • Review complaints regularly • Have a crisis management strategy, including consistency of messages and nominated spokesperson
Relationship with funders	• Deteriorating relationship • Impact on funding and support available	• Maintain regular contact with all funders, especially major funders • Undertake regular and appropriate project reporting • Meet funders' terms and conditions
Demographics	• Impact of demographic distribution of supporters and/or beneficiaries • Increasing or decreasing supporter class • Increasing or decreasing beneficiary class	• Research supporter base profile • Research beneficiary base profile and understand beneficiary needs • Establish future resource requirements from research
Government policy	• Availability of grant and contract funding • Impact on tax regime • Impact on regulatory environment • Shifts in official thinking about role of community and voluntary sector • Changes in government and civil service	• Monitor proposed legal and regulatory changes • Monitor political changes • Join umbrella bodies

Have you considered all the potential risks that your organisation is exposed to?

Have you considered fully what the potential impact of these risks might be?

Have you taken steps to mitigate the impact of these risks?

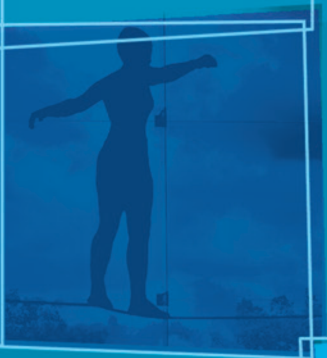
*** TOP TIPS ***

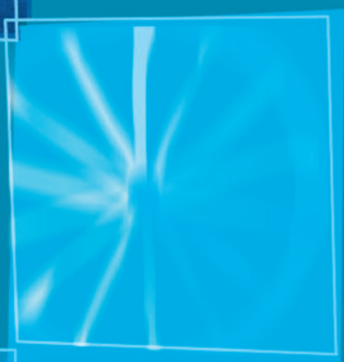
Join The Wheel to access focused information, networking, capacity building and support services, and receive the latest news and updates on shared issues affecting the community and voluntary sector, including charities regulation and best practice for management of charities.

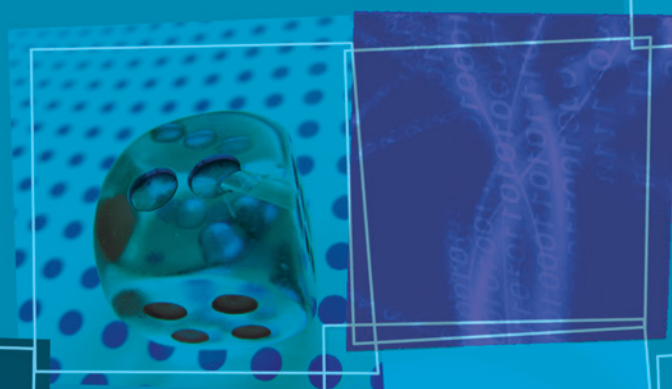
1.6 Summary

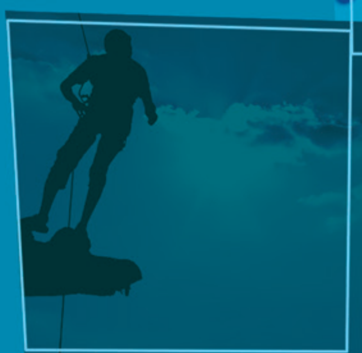
Risk can be defined in a number of ways, including the chance, great or small, that an organisation will be damaged in some way as a result of a particular hazard. It can also be viewed more positively, as a way of improving practice and seizing external opportunities. Although risk management is frequently considered to be a highly complex activity, it is something that all organisations already engage in on a very practical level. Ideally, all organisations should adopt a structured approach to managing all the risks that they are exposed to and this will require time and care. Risk management strategies must be appropriate to the size and needs of the organisation, and may cover risks in the areas of governance/management, operations, finance, compliance and the external environment. The governing body is responsible for ensuring a proper risk management strategy is in place, managerial staff are responsible for ensuring the risk management strategy is implemented, and other staff and volunteers are responsible for complying with the strategy measures.

CHAPTER 2:
The risk management process









2.1 Introduction

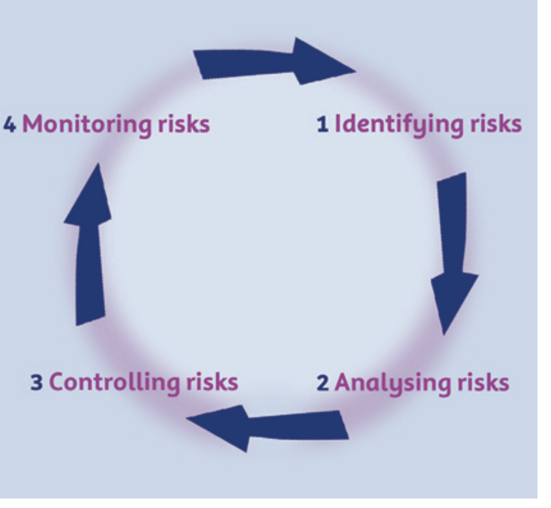
In very busy and under-resourced environments, it is tempting to sweep risks under the carpet in the hope that they will go away. They won't - risk must be managed. Managing risk requires commitment and action. In this chapter, the process of managing risk and developing an appropriate strategy for risk management in community and voluntary organisations is explored. It is shown to be a cyclical process with four defined steps. Various methods and tools that can be used to make the process as smooth and easy as possible are suggested, but each organisation is urged to find a risk management solution that suits its particular needs.

2.2 Overview of the process

Risk management can be viewed as a cyclical process that involves:

- Identifying risks
- Analysing them
- Controlling them
- Monitoring them.

It is an ongoing process, each stage of which requires revisiting as changes in the organisation occur, and the organisation becomes increasingly



aware of its risk profile. Although a structured and methodical approach should be followed, it must be remembered that risk management remains a subjective process with some organisations able and willing to absorb higher levels of risk than others.

2.3 Risk identification

Organisations exist to fulfil their mission and meet the goals set out in strategic plans. The identification of risks should therefore start with the organisation's key objectives and the risks associated with achieving these. For example, if an organisation's objectives include 'to run ten literacy courses this year' or 'to increase media coverage of the organisation by 50% in the next three years', the next question is 'which risks could prevent us from meeting these objectives?'. Planning for risk should therefore be an integral part of the organisation's strategic planning processes and should be followed through in operational plans.

However, an organisation may be approaching the topic afresh and may have to start a formal risk management process from scratch. As risk is intrinsic to everything that an organisation does, an initial assessment of risk should identify all the factors, events and situations that could present a risk to the organisation. It is important that risk identification is undertaken by individuals who know the organisation well, and that a range of people are involved in the process. It can be useful to brainstorm with staff and volunteers to draw up a list of potential risks.

*** TOP TIPS ***

When identifying risk, do not forget about the risks posed by branches of the organisation, subsidiaries, joint ventures and the like. Even if these are separate legal entities, their actions may give rise to risks that directly or indirectly affect your organisation, especially in terms of reputational risk. Reputation is significant, because most community and voluntary organisations operate in the context of public confidence and future income streams may be heavily dependent on the perception of the organisation by the public and funding agencies.

Does your organisation discuss risk as part of its strategic planning processes?

If not, why not?

Something that is identified as a risk in one organisation may not be identified as a risk in another, or something that was considered a risk in the past may no longer be regarded as a risk. For example, an organisation with sound reserves is able to embark on a new project with a higher risk profile than one facing solvency difficulties. Risk tolerance may also depend on the nature of activities undertaken by organisations to achieve their objectives. For example, a disaster relief agency working in an overseas conflict region may need to tolerate a higher level of risk there than it would for its domestic activities.

2.4 Risk analysis

Risk analysis is the examination of the potential consequences to the organisation if the identified risks were realised. It can itself be subdivided into three steps:

- Risk categorisation
- Risk scoring
- Risk prioritisation.

2.4.1 Risk categorisation

Once a list of all potential risks has been drawn up, they should be sorted into groups, or categorised. The list provided in section 1.5 is one method of classifying risks, but your organisation is free to devise its own classification system to suit your specific requirements. It is important to be methodical, and to select a system that is intuitive and that allows all possible risks to your organisation to be considered.

2.4.2 Risk scoring

The next step is scoring risks in terms of likelihood/probability and impact. There are various ways of doing this.

A useful tool is to plot each identified risk on a simple graph that has the probability of the risk on one axis, and the impact on the organisation on the other. For example, the risk of a fire in your office destroying all your files and data might have a low chance of happening, but if it did, it could have a very harmful effect on your organisation (see the star on the graph):

In addition, or alternatively, a simple quadrant can be drawn and each risk mapped into one of the squares according to likelihood or impact:

Contingency plans (2nd priority)	Immediate action (1st priority)
Low likelihood High severity of impact	High likelihood High severity of impact
Keep under review (4th priority)	**Consider action (3rd priority)**
Low likelihood Low severity of impact	High likelihood Low severity of impact

2.4.3 Risk prioritisation

The scoring system will enable you to establish a ranking system that reveals which risks should be tackled before others. Thus, in the first graph (on the previous page), those risks in the top right hand corner of the graph would be the first priority. In the quadrant above, those risks plotted in the 'immediate action' section would be the first priority, followed by those requiring contingency plans, followed by those for which action might be considered, and finally, those for which no action will be taken but which will be kept under review. Although the organisation must make sure all possible risks are adequately planned for, it should channel most of its energy and resources to mitigating those risks which are most likely to occur, and which would have the most serious consequences. The focus should therefore always be on main risks, which are those that would have a severe impact on the reputation, objectives and operational performance of the organisation if they were to come true.

*** TOP TIPS ***

Establish a small working group that:

- Coordinates the generation, through staff and volunteer input, of the initial list of risks
- Categorises the list
- Develops a ranking system for the list (it would be useful to get further staff and volunteer input at this stage)
- Draws up a final prioritised listing of risks for consideration by the governing body.

2.5 Risk control

Once it is clear what major risks the organisation faces, it can put in place safeguards to control these risks. This part of the process can seem daunting if the priority list of risks is long. However, the same controls or actions often cover different risks. It is also likely that some of the control methods are already in place, but have not necessarily been perceived as being part of a risk management strategy. If so, the organisation simply has to check whether these systems still suffice, given the evidence gathered during risk identification and analysis. By setting adequate controls, the 'gross risk' (that is, the risk faced by the organisation before it does anything to manage/control it) can be reduced to 'net risk' or 'residual risk' (see 2.7). It must be remembered that the costs of any controls should not outweigh the benefits.

There are several options for controlling risk:

- Avoidance
- Prevention
- Minimisation
- Acceptance
- Transferral.

2.5.1 Avoid the risk

This involves not undertaking an activity for which risk has been identified. This may mean stopping an activity completely because the risks associated with are too great to warrant continuing it, or not starting a new activity because of associated risks, for example, not taking up offered sponsorship.

2.5.2 Prevent the risk

This involves taking action to reduce the likelihood of a loss, for example, by installing anti-virus software on computer equipment and having processes for regular updating of that software. The development of robust internal policies and procedures - for matters such as employment, internet and email usage, health and safety, etc - is key to prevention.

2.5.3 Minimise the risk

This involves taking action to reduce the consequences of a loss should it occur. Examples of risk minimisation are contingency planning or installing sprinklers to slow the progress of a fire. Another way of minimising risk is to spread it, for example, by sharing the risk with a willing partner.

2.5.4 Accept the risk

The organisation might be prepared to accept some risks. For example, if the cost of preventative action significantly outweighs the likelihood and potential impact of the risk (earthquake damage in Ireland, for instance), it is fine to accept the risk.

2.5.5 Transfer the risk

This involves transferring the liability for the risk to another body. This might be done through outsourcing and contractual arrangements, where a subcontractor accepts the risks associated with contract delivery. The main way in which risk is transferred, however, is through insurance. Every organisation will need some level of insurance to cover its activities and to minimise the effects of possible litigation. Note, however, that insurance ordinarily only deals with residual risk; organisation must show that they have taken adequate care and set appropriate controls to reduce their exposure to risk. The most commonly used types of insurance cover are listed in the following table, but please note that this list is not exhaustive. It is important to seek professional advice from an independent insurance broker and organisations should review the scope and adequacy of insurance arrangements on a regular basis.

Type of cover	Description of insurance
Public liability insurance	This is the most basic type of insurance needed by most organisations and covers injury, loss or damage caused to third parties (usually the general public) as a result of organisational activity.
Directors and officers insurance	The process of incorporation as a company limited by guarantee or an industrial and provident society limits the liabilities of the individuals that make up an organisation. However, not all liabilities are waived through incorporation (exemptions include libel and negligence). This type of insurance prevents individual governing body members' personal assets being used if claims are brought against them individually, as opposed to the organisation. However, it does not cover everything a director or officer may do wrong (exemptions include recklessness).
Professional indemnity insurance	This offers protection against claims for negligence arising out of advice, counselling, information or guidance provided by the organisation, such as errors in advice given, breach of confidentiality or breach of copyright.
Employers' liability insurance	This provides legal liability cover for death or injury to employees sustained in the course of working for the organisation.
Employment practice insurance	This covers the organisation against claims by staff for wrongful dismissal, discrimination and harassment.
Property and equipment insurance	This is the type of insurance most people are familiar with; it normally covers buildings, their contents and portable property for loss, theft and damage. It may also include cover for business interruption.
Motor insurance	If the organisation has its own fleet of vehicles, these will have to be insured appropriately. If individual staff or volunteers use their own vehicles in the course of working for the organisation, they should extend their cover to include business use (it is good practice to reimburse any additional costs incurred by the staff or volunteers).
Events insurance	Small events may be covered by public liability insurance but major events are likely to require additional cover. Never hold an event without ensuring that adequate cover is in place.

2.6 Risk monitoring

It is vital that the controls are implemented and then monitored on an ongoing basis. Risk management is not a once-off process; it must be dynamic. This means establishing how previously identified risks may have changed and ensuring that new risks are assessed as they arise. Risk monitoring must also determine whether the risk controls themselves are effective. However, a disproportionate amount of energy should not be given over to risk assessments. Once an initial risk management process has been completed, an annual review of risk, supplemented by update reports and assessments of proposed new activities, is likely to be sufficient for most organisations.

A successful risk monitoring process will ensure that:

- New risks are properly recorded and evaluated
- Risk aspects of significant new projects are considered as part of project appraisals
- Any significant failures of control systems are properly reported and actioned
- There is an adequate level of understanding of individual responsibilities for both the implementation and the monitoring of control systems
- Any further actions required are identified
- The governing body considers and reviews the annual process
- The governing body is provided with relevant update information.

2.7 Risk register

Organisations might find it useful to set up a risk register, or risk management register, that acts as an overall organisational information source on risk and how it is being managed and controlled. An example of two entries in a sample risk register[2] is provided in the following table.

It is important to remember that although this sample risk register might seem complex as a result of the sample scoring system, the crucial point is for the organisation to have a document in which all risks are listed, prioritised, controlled and monitored. Each organisation should use the system with which it is most comfortable.

[2] Adapted from Charity Commission (England and Wales), *Charities and Risk Management*, 2010 ©

Risk identified	Probability score (a) out of 5	Impact score (b) out of 5	Gross risk a X b	Control	Net risk	Monitoring process	Responsibility	Further action	Date of review
Lack of return on investment	Medium 4	High 4	Medium/high 16	Investment policy; written instructions to independent financial advisor; quarterly review by board	Low	Performance reports reviewed quarterly by board	Board/ Treasurer	Quarterly agenda item for board meeting	Quarterly
Unsatis-factory returns on fundraising	Medium 4	High 5	High 20	Financial appraisal of new projects; benchmarking of returns achieved; budget reporting per fundraising activity	Medium	Financial reporting by fundraising activity; quarterly fundraising report by Fundraising Manager to Chief Executive Officer and board	Fundraising Manager/ Chief Executive Officer	New initiatives to be approved by board unless in business plan; review regulatory compliance of current methods	Next board meeting

*** TOP TIPS ***

Follow these steps to set up a risk register for your own organisation:

- List every risk identified and score it (for example, out of five, with one being low and five being high) in terms of the likelihood of it happening. This is value 'a'.
- Score each risk (again out of five) in terms of the impact of the risk if it were to happen. This is value 'b'.
- Multiply a and b to give value 'ab', which is the 'gross risk'; that is, the risk without any intervention from the organisation.
- You can now identify the highest risk areas. Those with the highest scores must be tackled first, as they pose the greatest threat to the organisation.
- You must try to reduce the gross risk values to net risk values by implementing 'controls'; measures which reduce the risk so that it becomes a 'residual risk'.
- A monitoring process must be put in place which tracks the control mechanism, allocates responsibilities, lists further action needed and gives a review date. Details of all must be kept in one place.

2.8 Risk management strategy

Developing a written strategy and policy for managing risk is clearly essential. This must meet the needs of the organisation.

Successful risk management strategies:

- Are aligned to the organisation's mission, strategic and business plans
- Are embedded in day-to-day processes
- Are supported by the governing body, paid staff and volunteers
- List and rank risks previously identified and analysed
- State what action will be taken to manage risks
- Focus on major risks
- Can immediately control major weaknesses
- Are simple, but structured
- Identify resources allocated to managing risks
- Assign roles and responsibilities for managing risks

- Are communicated effectively throughout the organisation
- Have clear communication channels for the reporting of suspected breaches of law, regulations and other improprieties
- Set out how and when risks will be monitored and reviewed
- Review plans, policies and procedures when changes take place
- Are adaptable to change
- Provide a summary of risk management systems to regulators and other stakeholders on request.

You will find that when you adopt such an approach, risk management becomes an integrated part of the management of your organisation.

2.9 Summary

Risk management is a cyclical process that involves identifying, analysing, controlling and monitoring risks. Although there are potentially very many risks that an organisation faces, it should concentrate on those risks that are most likely to occur, and which would have the most devastating consequences if there were realised. There are various tools available to help make balanced judgements on priorities, and several options for reducing or controlling risk, including: avoidance, prevention, minimisation, acceptance and transferral. Adequate insurance cover has an important role to play. Appropriate controls must be implemented and the situation must be monitored on an ongoing basis. All organisations should have a written risk management strategy and policy that suits their particular needs.

*** TOP TIPS ***

Once you start on a risk management strategy, ensure the process maintains momentum. Do the work swiftly over a limited number of weeks or months. You may wish to use the services of an external facilitator to assist you with the process.

CHAPTER 3:
What next?

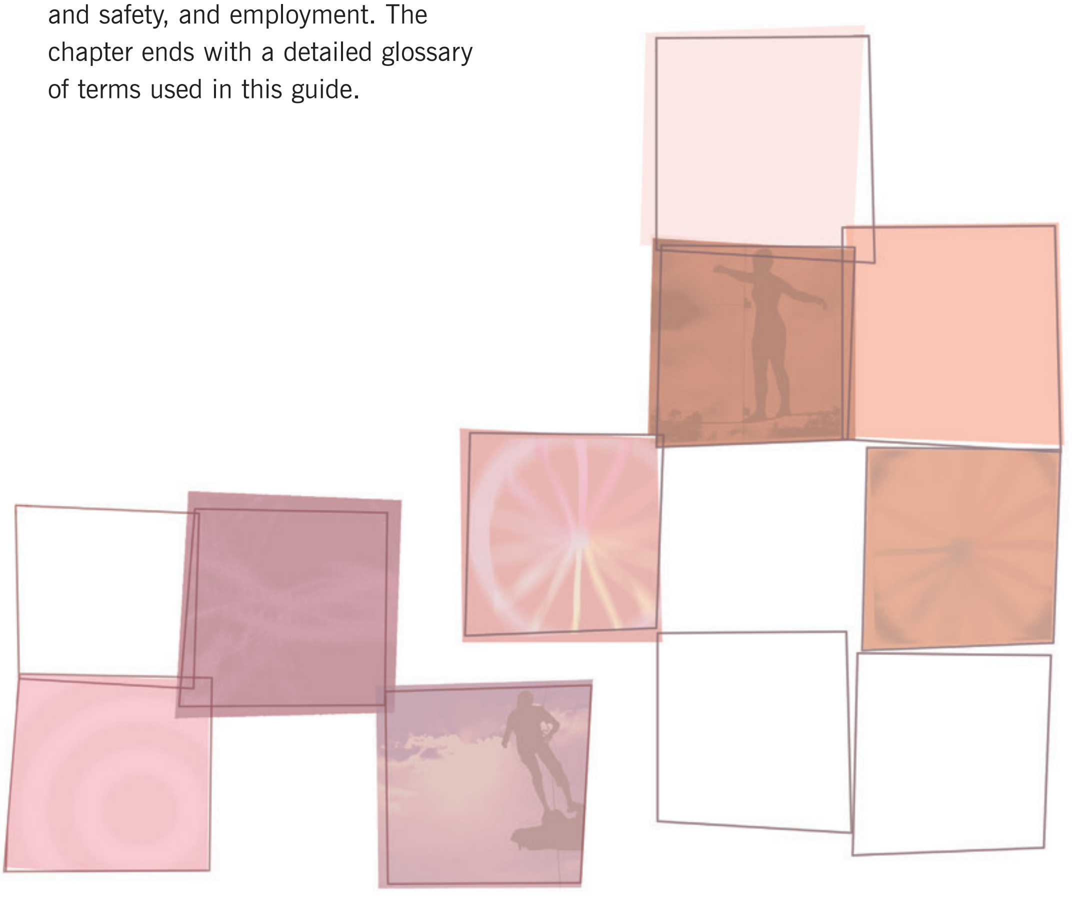
3.1 Introduction

As a result of using this guide you may decide that further information, advice or support would be helpful. This chapter offers key signposts to assist you in that search, in the form of useful organisations, publications and websites from both Ireland and abroad. As has been shown, everything an organisation does has associated risks. It is therefore not feasible to provide signposts to all relevant information. Many general governance and management handbooks (including the guides in The Wheel's *Solid Foundations* series) will be of use, as will more specialist resources on matters such as finance, health and safety, and employment. The chapter ends with a detailed glossary of terms used in this guide.

*** TOP TIPS ***

Contact The Wheel for further information on any of the topics raised in this guide:

The Wheel
48 Fleet Street
Dublin 2
01 454 8727
info@wheel.ie
www.wheel.ie



3.2 Resources

3.2.1 Child protection

Department of Children and Youth Affairs
01 647 3000
www.dcya.gov.ie

- *Children First: National Guidance for the Protection and Welfare of Children,* 2011 (available as free download www.dcya.gov.ie/documents/child_welfare_protection/ChildrenFirst.pdf)

Garda Central Vetting Unit
0504 27300
www.garda.ie

3.2.2 Insurance

The following schemes are customised for community/voluntary/charitable organisations:

BHP Insurances
01 620 2030
www.bhpinsurance.ie/community%2Dand%2Dsocial%2Dinsurance

Citizens Information Board Group Insurance Scheme
0761 07 9600
www.citizensinformationboard.ie/services/providers_voluntary/providers_voluntary_insurance.html

3.2.3 Risk management

Association of Chief Executive Officers of Voluntary Organisations
0044 20 7014 4600
www.acevo.org.uk

- Tribal Consulting, *Essential Guide to Risk Management,* 2009 (£12.50 for electronic version)

Directory of Social Change
0044 8450 77 77 07
www.dsc.org.uk/publications

- Gray-King, Elizabeth, *Speed Read: Risk Management,* 2009

Energize Inc.
001 215 438 8342
www.energizeinc.com

Type 'risk' into their website search engine for a huge range of relevant materials with a North American slant, including:

- Graff, Linda L, *Better Safe: risk management in volunteer programs and community service,* 2003 ($20 for electronic version)

Institute of Risk Management Charities Special Interest Group

0044 20 7709 9808

www.theirm.org/events/TheInstituteofRiskManagement-SpecialInterestGroups_charities.htm

National Council for Voluntary Organisations
0044 20 7713 6161
www.ncvo-vol.org.uk

Type 'risk' into their website search engine for a range of relevant materials with a British slant, including:

- National Council for Voluntary Organisations, *Understanding and Identifying Risk* (free download)

Volunteering Australia
0061 2 6251 4060
www.volunteeringaustralia.org

Various risk resources, including:

- Volunteering Australia, *Running the Risk?,* 2003 (free download)

3.2.4 Safety

Food Safety Authority of Ireland
1890 336 677
www.fsai.ie

Health and Safety Authority
1890 289 389
www.hsa.ie

3.2.5 Other

Carmichael Centre for Voluntary Groups
01 873 5702
www.carmichaelcentre.ie

- Various articles on KnowledgeNET that tackle the issue of risk to a greater or lesser extent (type 'risk' into search engine) www.knowledgenet.carmichael centre.ie

Governance Code
www.governancecode.ie

Irish Charities Tax Research Limited
01 400 2100
www.ictr.ie

- *Statement of Guiding Principles for Fundraising,* 2008 (free download)

3.3 Glossary of terms

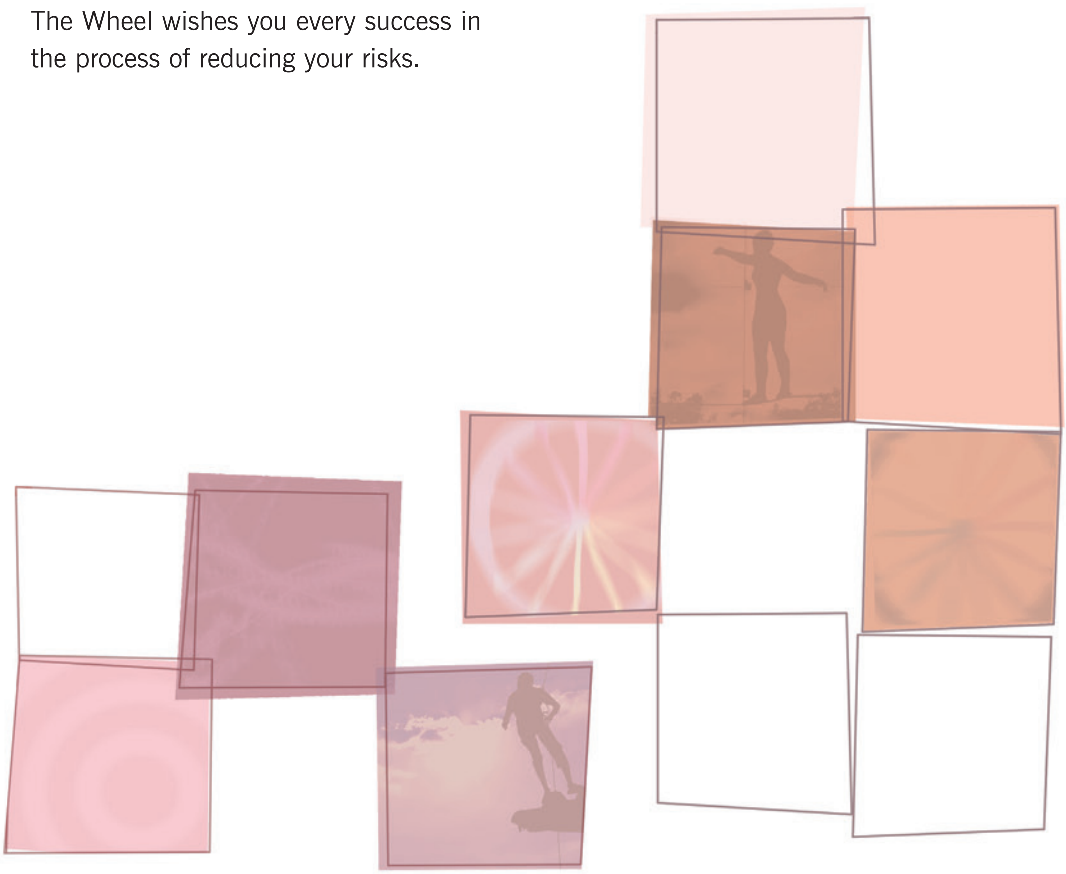
Appraisal	A review, usually annual, especially of staff performance
Asset register	An up-to-date listing of all the assets of an organisation (equipment, vehicles, etc)
Audit	An examination to ensure appropriate accountability of an organisation, especially finances
Authorisation	The formal giving of permission to do something
Benchmarking	Evaluating something by comparing it with an external standard or norm
Beneficiaries	Service users or others who benefit from the activities that the organisation undertakes
Budget	An estimate of income and expenditure for a defined period of time (usually annual)
Business plan	A document to project future opportunities and map financial operations, marketing and organisational strategies that will enable the organisation to achieve its goals
Buying consortia	Where organisations, especially smaller organisations, group together to increase their purchasing power and to take advantage of bulk discounts, etc
Cash flow	The amount of money coming into and going out of an organisation at any one time, affecting that organisation's liquidity
Charities regulation	Charities in Ireland will be regulated by a charities regulator sometime in the near future
Company limited by guarantee	An organisation incorporated under the Companies Acts and registered with the Companies Registration Office with members rather than shareholders; members guarantee a set amount (usually nominal) towards financial debts
Competitive tendering	Inviting potential providers of goods or services to formally bid for a contract, either advertised publicly or from a shortlist of previously approved suppliers
Compliance	Meeting required rules or standards, for example those of regulators
Conflict of interest/loyalty	Applied to individuals when their different interests clash as a result of 'wearing more than one hat'; in particular where a personal or professional interest may get in the way of making a decision in the best interest of the organisation
Contingency planning	Being prepared for a future circumstance that may occur, but of which there is uncertainty

Exit interview	An interview undertaken as a staff member, volunteer or some other person associated with the organisation leaves the organisation
Governance	The systems and processes concerned with ensuring the overall direction, supervision and accountability of an organisation
Governing body	The grouping of people in an organisation which undertakes the governance role
Governing document	A formal, written document that sets out the organisation's purpose and how it will be run (constitution, memorandum and articles of association, deed of trust or rules)
Gross risk	The risk to an organisation if nothing is done about it
Hazard	A danger or threat
Incorporation	The process whereby an organisation takes on legal status, currently either as a company limited by guarantee or an industrial and provident society
Industrial and provident society	An organisation incorporated under the Industrial and Provident Societies Acts; most are profit-making and allow distribution of profits to members
Intellectual property rights	Rights granted to creators and owners of works that are the result of human intellectual creativity (copyrights, trademarks, etc)
Liability	Any enforceable legal obligation
Liquidity	The availability of 'liquid' (cash) assets to an organisation
Litigation	Taking a claim or dispute to a court of law
Management	Organising the work of an organisation
Mitigation	Reducing the severity or seriousness of something
Monitoring	Routine and systematic collecting and recording of information that can be used for evaluation purposes
Net risk	The remaining or 'residual' risk once safeguards have been put in place
Objects	Statement of an organisation's purpose set out in its governing document
Operations	The day-to-day work of an organisation
PAYE	Pay As You Earn: the way employees pay income tax through their employers
Policy	A clear statement of intent about how an organisation will behave in relation to certain issues
Powers	What an organisation is allowed to do, as set out in its governing documents
Probability	The likelihood of a specific event or outcome

Procedures	A written statement that describes the way in which a policy will be implemented
Prudence	Acting in such a way that shows care and thought for the future
Regulator	A person or body empowered by law/statute that supervises a particular industry, business activity or other sphere of influence to ensure that public benefit is maintained
Remuneration	Paying for work
Reporting	To give a formal account of something that has happened
Reserves	Amounts of money that the organisation sets aside to be used in the future
Residual risk	See net risk
Restricted income	Funds that have been granted to an organisation on the basis that they will only be spent on an agreed activity
Risk	Any situation involving exposure to danger
Risk analysis	The process of categorising, ranking and prioritising identified risks
Risk control	The process of putting in safeguards or 'controls' (or not) to mitigate analysed risks (that is, reducing gross risk to net risk)
Risk management	The strategic process of managing an organisation's potential exposure to legal liabilities and other risks
Risk (management) register	A listing of all organisational risks identified, together with their probability, impact, controls and systems for monitoring
Risk tolerance	An organisation's ability to tolerate or absorb a certain level of risk
Service level agreements	Usually, a contract between a statutory agency and a voluntary organisation to provide services on behalf of that agency
Strategic plan	The goals for the future of the organisation and the steps necessary to achieve these over a defined period of time
Strategy	A broad course of action with an identifiable outcome
Subcommittee	Smaller committee dealing with specific issues that must report back to the main committee/governing body
Succession	A process of one person leaving a job or position and another replacing that person
Unincorporated association	An organisation that has no legal status of its own in the eyes of the law
Volunteer	A person who, of their own free will, undertakes unpaid work for the benefit of others
Working group	A time-limited group set up to progress a specific issue

3.4 Summary

Do not be daunted by risk management - it is something that we do every day (albeit on an *ad hoc* basis). A more structured process for your organisation can be methodically broken down into clearly identifiable steps, and there are many resources available to assist you. The Wheel wishes you every success in the process of reducing your risks.



Life is risky and community/voluntary/charitable organisations are not immune from risk. Risk cannot be avoided, but most types of risk can be anticipated and therefore planned for. By properly managing risk, the organisation can fulfil its potential and the negative effects of hazards can be reduced. If they have not already done so, the time is right now for organisations to put in place risk management strategies that suit their needs.

Reducing the Risk is part of a range of training and guidance services provided by The Wheel. It follows on from our popular publication *Solid Foundations: a resource guide for building strong and effective organisations in the community and voluntary sector*. It is accompanied by a range of sister publications on specialist topics.

Reducing the Risk has been designed to help organisations:

- Recognise the importance of managing risk in a structured manner
- Identify the kind of risks to which they are exposed
- Take a logical step-by-step approach to risk management
- Have access to a range of signposts to further information.

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The Wheel
48 Fleet Street
Dublin 2

Tel: 01 454 8727
Fax: 01 454 8649
Email: info@wheel.ie
Website: www.wheel.ie

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Charity number: CHY 13288
Price: €20