Eight hallmarks of a risk aware Non Profit

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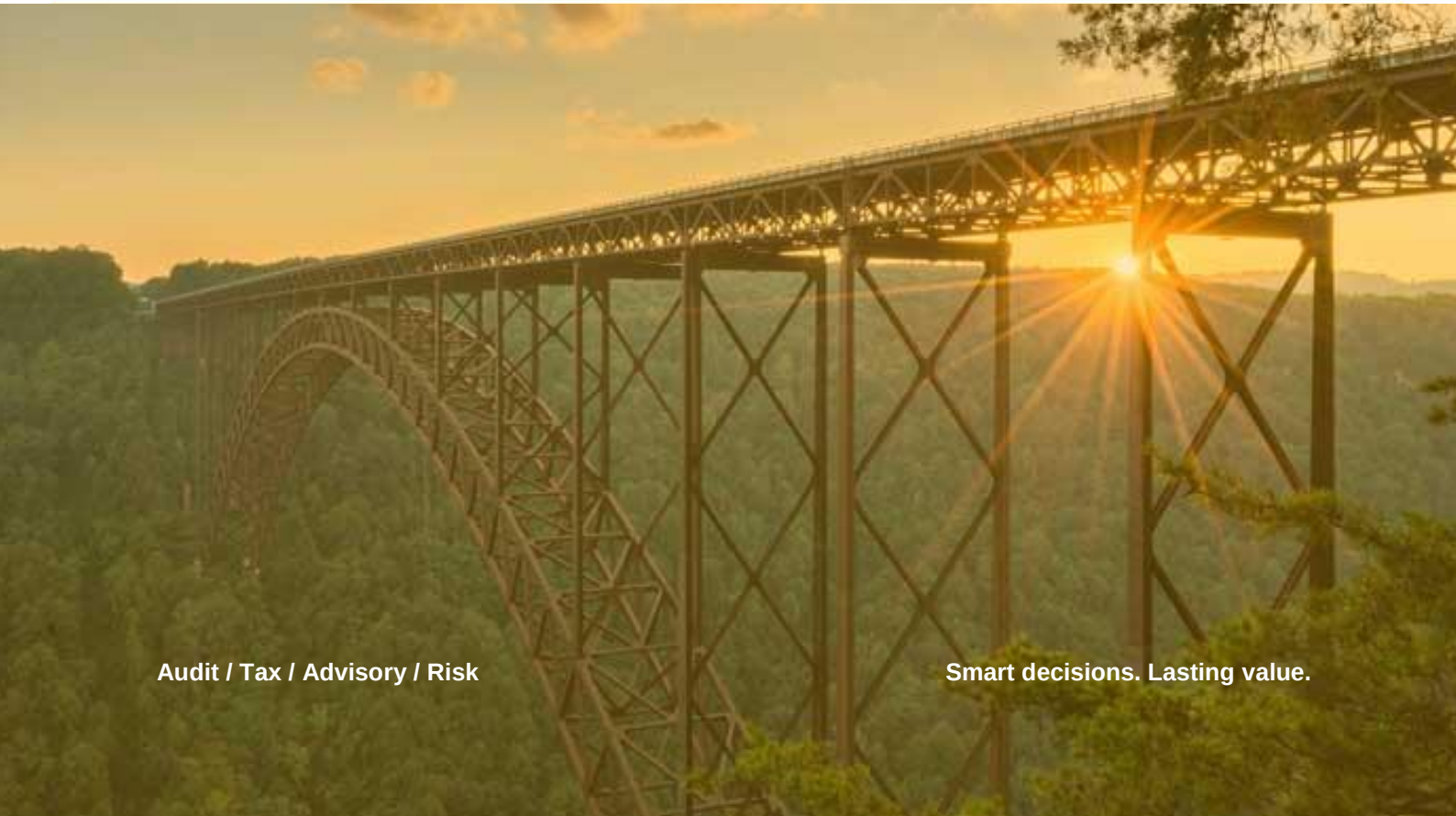

How can charities get the most from their risk management?

We have in previous reports discussed a number of key aspects on risk management. These have included:

- linking strategy to risk management
- emphasising the impact of a risk over its likelihood
- considering risk appetite
- evaluating the risk that comes with working with third parties
- key issues to manage cyber security risks

Our experience of working with charities that are at the forefront in all these areas has led us to identify certain hall marks of a risk aware organisation.

Hallmark #1: A risk aware charity has a clear strategy and effective governance

The starting point for any organisation is to have a clear strategy and effective implementation plans. All too often we see charities which have shaped their strategy and therefore thought about “what they should be doing” but have not considered “how they should be doing it”. It is important to consider the strategic options and develop the long term aims and controls establishing an operational plan that underpins the strategic framework. A robust set of strategic options should be formulated, each followed through to its logical end state, including the implications for the allocation of people, funds, and other resources. The risk is that the organisation finds itself with inadequate resources to deliver its plans and flounders in the implementing of its strategy.

Consider:

1. Do we have a clear strategy?
2. Have we considered our strategic options?
3. Do we have an operational plan? Have we considered both “what should we be doing” as well as “how should we do it”?
4. Have we considered the resource implications of implementing our plan?
5. Have we communicated the strategy and the implementation plan to key stakeholders within the charity?

Effective governance is at the heart of any well run, well-functioning organisation. Effective governance is about the right “tone at the top” and trustees, who are willing and able to challenge assumptions, ask the right questions and ensure that the facts are properly considered. It is also about appropriate delegation with clearly stipulated authority levels and effective reporting back protocols. Some of the recent challenges on areas such as fundraising indicate that sometimes key decisions have been delegated to individuals with insufficient monitoring and understanding of what was happening.

Consider:

6. Do trustees delegate to management within a clearly defined and appropriate scope of authority?
7. Do we have effective reporting mechanisms?
8. Do trustees receive timely information in a format that is understandable?
9. Do trustees and senior management challenge robustly and ask the right questions?

Hallmark #2: A risk aware charity links strategy to risk management

A risk aware charity is one that links strategy and risk management. Ultimately good risk management is about ensuring we have identified those risks and opportunities that can impact on our strategic aims. It is also about being able to manage both risks and opportunities.

Consider:

10. Do we understand the key risks that might prevent the charity from achieving its goals?
11. Have we carried out both a top down and bottom up risk mapping process which considers both strategic and operational risks? Is our risk register reviewed regularly by the Trustees and Senior Management to ensure lessons learned and changing circumstances are properly reflected?

Hallmark #3: A risk aware charity horizon scans and anticipates beyond the current strategic plan

A risk aware charity thinks beyond the current strategic period to the next one. It considers what is on the horizon that can stop it from achieving its mission. As organisations mature they can face a decline in innovation. It is important that both the “business as usual” as well as emerging opportunities are considered concurrently. For this to happen organisations must gather information beyond the usual timescales and extend beyond the usual sources. They must consult others with different perspectives.

Consider:

12. Have we considered what we need to do now to be innovative for the future?
13. Have we considered what we need to do now to set the seeds for the next strategic period?
14. Do we actively horizon scan and disseminate that value added information to support decision-making?
15. Do we balance investment in the current with the need to invest for the future (in terms of delivering charitable outcomes and impact, income generation and infrastructure)?

Hallmark #4: A risk aware charity understands the need to take risks and innovate

All too often risk registers are about downside risks but successful organisations need to innovate to grow and deliver and to do that they need to take risks. All too often organisations and individuals focus all their attention on what could go wrong but this may mean that they will miss opportunities which will drive growth and create value for their stakeholders.

Consider:

16. Have we identified what risks the charity needs to take to be successful?
17. Do we have a process for managing opportunities? Do we seek to exploit/share or enhance the benefit of the opportunity for our organisations?

Hallmark #5.: In a risk aware charity risk appetite/tolerance is articulated and understood

The consideration of risk and how risk is managed is particularly important for charities because their governance structure means that those who are ultimately responsible for the charity, its trustees, are not normally involved in the day to day running of its operations. The setting of risk appetite:

- Depends on understanding the importance of different objectives and actions and the risks that have to be taken to achieve those objectives.
- Needs to be considered for individual programmes and projects, and also across operating areas, geographies, activities, functions.
- Needs to consider the overall portfolio of risks to ensure that an organisation's risks and response are appropriate, balanced and sustainable.

Understanding of the organisational risk appetite is important as "over responding" in control measures or management of risk can lead to extra costs and / or inhibited activity. Furthermore in order for management to innovate and consider upside risk they need to have a clear understanding of Trustees risk appetite.

Consider:

18. Is there a clear understanding of Trustees' risk appetite? Has this been communicated broadly throughout the organisation?
19. Is the risk response on the risk register appropriate in the context of the risk appetite?
20. Have we considered the cost and benefit of managing our risks?

Hallmark #6: A risk aware charity embeds risk management at all levels with the right tone set at the top

One of the hardest parts of establishing an effective risk management process is embedding it across an organisation. To achieve it though it is essential that the right tone is set at the top by not only the Trustees but also by the Senior Management Team and that there is engagement at all levels – both top down and bottom up.
There is no one answer to embedding risk across an organisation. It is more about doing a number of things and keeping these up. For example the risk register should not be something that is dusted off annually to tick the box but one that is regularly considered by the charity, discussed, updated and reviewed. There should also be regular training and development programmes for staff and for Trustees. It should be included as part of the Trustee induction. There should be clear links to strategy and performance management as well as a discussion of key learning points.

Consider:

21. Do management and Trustees set the right tone at the top?
22. Do we regularly monitor, review, update and discuss our risk register?
23. Do we have regular training for staff and Trustees?
24. Is there discussion of key learning points which feedback into our risk and strategy process?

Hallmark #7: A risk aware charity understands the need for assurance and performance management and builds these into the process

Most charities try to foster a culture of empowerment. True and effective empowerment needs responsibility, authority and accountability. This increases the need for review and monitoring controls.
The assurance framework should give assurance to the Trustees, management, funders, regulators and other stakeholders that the responsibilities of governance and stewardship have been met. This means that the assurance framework should focus on operational process, systems effectiveness and the alignment of activity with strategy.
At key element is effective performance management which is a key part of strategic risk management. There should be alignment of the charity's mission with goals with performance metrics.

Consider:

25. Do we have an assurance framework which links our organisational strategy and the risks and uncertainties that can impact on the strategic aims?
26. Is our assurance framework risk focused and take account of the charity's strategy, governance and risk management processes in determining the approach and the areas to cover?
27. Do we measure and monitor KPIs related to strategic risks?
28. Do we include financial and non-financial KPIs?

Hallmark #8: A risk aware charity communicates effectively

Accountability and transparency are of vital importance to charities. The final and perhaps one of the most critical hallmarks of a risk aware charity is effective communication. This requires an effective communication strategy and communication plan. UK charities need to pay due regard to the serious incident reporting requirements as set out by the Charity Commission and ensure that there are proper processes in place that ensure incidents are captured on a timely basis and reported up to management, Trustees and if appropriate to the regulator.
SORP2015 requires the trustees to disclose the principal risks and uncertainties facing the charity and an explanation of how the charity manages these including a brief explanation about those factors that support the conclusion that the charity is a going concern.

Consider:

29. Do we have a strong risk statement in our annual report?
30. Have we identified who are stakeholders are and considered their communication needs?
31. Do we have a communication strategy and a communication plan? Is this shared within the charity and well understood?

Notes

Start the conversation

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