Shillington Village Hall Management Committee

Registered Charity no: 300066

Risk Management Policy

Introduction

The Village Hall Foundation was originally established as the Hanscombe Memorial Hall in January 1921. In December 1969, an Administration and Title for the Foundation and its endowment was established as a charity under the title of Shillington Village Hall (Village Hall).

The object of the Foundation is the provision and maintenance of a village hall for the use of the inhabitants of Shillington and the neighbourhood without distinction of political, religious or other opinions, including use for meetings, lectures and classes and for other forms of recreation and leisure-time occupation with the object of improving the conditions of life for the said inhabitants.

Legal Requirements for Charities in Relation to Risk Management

Charities that are required by law to have their accounts audited must make a risk management statement in their trustees' annual report confirming that '...the charity trustees have given consideration to the major risks to which the charity is exposed and satisfied themselves that systems or procedures are established in order to manage those risks.' (Charities (Accounts and Reports) Regulations 2008).

The statutory audit thresholds effective from 1 April 2009 are:

- An income of £500,000 or more or
- A gross income exceeding £250,000 with gross assets held exceeding £3.26 million

Further information on audit thresholds can be found on the GOV.UK website.

Smaller charities: Trustees of smaller charities with gross income below the statutory audit threshold (who should still be concerned about the risks their charity faces) are encouraged to make a risk management statement as a matter of good practice.

Risk Management Policy

This Risk Management Policy (“the Policy”):

- Sets out the high-level arrangements for risk management, control and assurance.
- Provides a definition of risk and risk management.
- Sets out the arrangements for approval and maintenance of the Policy.
- Defines the Village Hall Management Committee’s (the Committee’s) approach to risk appetite and tolerance.
- Defines the Committee’s risk management strategy.
- Describes the governance arrangements and responsibilities for managing risk.

This Policy is reviewed annually by the Committee to ensure fitness for purpose. It is approved by the Committee. Understanding and controlling risk is important to the Committee. Effective and efficient risk governance and oversight provide assurance that the Committee’s activities will be positively enhanced by opportunities but not be adversely impacted by threats that could have been foreseen.

What is Risk?

Risk can be defined as the uncertainty around the Committee’s ability to achieve its objectives and meet its responsibilities effectively. Risks can be positive (opportunities) and negative (threats) and are a combination of the likelihood of an event and the impact of the consequence. Events with a negative impact represent risks that can prevent value creation or erode existing value. Conversely opportunities could, if exploited, offer valued improvements to the Committee and the community it serves.

Risk Management

Risk management can be defined as the systematic application of principles and approach, and a process by which the Committee identifies and assesses the risks attached to its activities and then plans and implements risk responses.

Effective risk management underpins the Committee's activities and long-term success. As such, it is essential that risk management is incorporated into all key planning, decisions and activities.

Approval and Maintenance

The Policy is approved by the Committee. The Policy is reviewed by the Committee at least annually to ensure that it continues to be relevant to the Committee's current and planned activities.

Risk Appetite Statement

Risk appetite is the amount and type of risk that the Committee is willing to take in order to achieve its strategic objectives.

The annual review of the Policy will include the opportunity for the Committee to review its risk appetite statement in light of the context in which the Committee is operating.

Risk Management Culture

The Committee strives to embed a culture where risk management is a key component in all its decision-making. This will enable the Committee to take the right risks in an informed manner. The Committee's risk culture builds upon its values of responsiveness, inclusiveness and innovation.

The following key characteristics have been adapted from the Institute of Risk Management which recommends these components of a successful key culture:

a) A distinct and consistent tone from the Committee in respect of risk taking and avoidance.
b) A common acceptance of the importance of continuous risk management.
c) Transparent and timely risk information reporting.
d) Actively seeking to learn from mistakes and near misses.
e) Appropriate risk-taking behaviours encouraged, and inappropriate behaviours challenged and sanctioned
f) Risk management skills and knowledge are valued, encouraged and developed.

Governance and Responsibilities

An effective risk management structure requires governance, oversight and management. The governance role sets strategy and approves the Policy and receives assurance that they are operating effectively. Risk oversight involves establishing a framework of rules and mechanisms to measure, monitor and report risk exposures. It also provides a process to ensure that risk is managed effectively.

Risk Governance

The Committee has overall responsibility for risk management, sets the tone for risk management and takes an overall perspective of compliance with the Committee's policies and aims. The Committee determines the overall parameters for risk appetite and tolerance. The Committee assures itself that risk management requirements are consistently and rigorously applied

Risk Assurance

Assurance is provided through transparent, timely and objective risk reporting. Additionally, an annual report on the overall effectiveness of risk management systems and controls is provided to the Committee.

Risk Owners

Risk Owners are responsible for the management and control of all aspects of the risks assigned to them, including implementation of risk response actions to address threats and maximise opportunities. The responsibility for implementation of risk response actions may be delegated to a named individual who supports and takes direction from the risk owner.

All Hirers

All Users of the Village Hall facilities are responsible for complying with the Policy and for managing the risks associated with their operational activities and processes. The Framework describes the method for applying Policy requirements, including the tools and techniques for risk identification, assessment, planning, implementing, monitoring and reporting. The Committee uses a risk register to document consideration of risks. This should be reviewed regularly to ensure threats are being managed and opportunities exploited.

Risk Management Process

Risk Management

There are four basic strategies that can be applied to manage an identified risk:

1. Transferring the financial consequences to third parties or sharing it, usually through insurance or outsourcing.
2. Avoiding the activity giving rise to the risk completely, for example by not taking up a contract or stopping a particular activity or service.
3. Management or mitigation of risk
4. Accepting or assessing it as a risk that cannot be avoided if the activity is to continue. An example of this might be where trustees take out an insurance policy that carries a higher level of voluntary excess or where the trustees recognise that a core activity carries a risk but take steps to mitigate it - public use of a charity's property such as a village hall would be such a risk.

Disaster Recovery Planning

As a part of an effective risk management process, a charity should consider what needs to be done if a serious event does take place. This could range from a fire or flood to a serious computer malfunction. Charities should consider how their services to their beneficiaries would be affected as a result of a serious

incident, including those with a major impact and a low likelihood, and plan to resume normal operations as far as and as soon as possible.
The scope and complexity of any disaster recovery plan will vary according to the size and activities of the charity concerned.
Given the Committee's role and function, it has yet to identify any requirement for Disaster Recovery Planning.

How to Manage Risks

In accordance with the Charity Commission's guidance, the Committee follows the recommended model, which comprises the following five steps:

1. Establish a risk policy.
2. Identify risks.
3. Assess risks.
4. Evaluate what action to take.
5. Review, monitor and assess periodically.

Based on Charities Commission guidance, the Committee groups risks into the following categories:

1. Damage to its reputation and credibility.
2. Governance and compliance risks.
3. Receiving less funding or fewer public donations.
4. Losing money through inappropriate investments/loss-making activities.
5. Change in the government's policy, affecting grants or contracts.

Although any given risk can impact more than one of the above categories, the categorisation is helpful in the process of identifying the risks that the Committee faces and for distinguishing the risk appetite across the different categories of risk.

Identifying Risks

When identifying risks, the Committee considers:

- The charity's objectives, mission and strategy.
- The nature and scale of the charity's activities.
- The outcomes that need to be achieved.
- External factors that might affect the charity such as legislation and regulation.
- The charity's reputation with its major funders and supporters.
- Past mistakes and problems that the charity has faced.
- The operating structure.
- Comparison with other charities working in the same area or of similar size.
- Examples of risk management prepared by other charities or other organisations.

The Committee is committed to risk management and consult widely to ensure ideas from all stakeholders are captured. The Committee is mindful of its licencees and hirers and that their activities could give rise to risks that could directly or indirectly impact on the charity.

Assessing Risks

Identified risks need to be put into perspective in terms of the potential severity of their impact and likelihood of their occurrence. Assessing and categorising risks helps in prioritising and filtering them, and in establishing whether any further action is required. One method is to look at each identified risk and decide how likely it is to occur and how severe its impact would be on the charity if it did occur.
The following tables can be used to provide guidance on the 1-5 scoring of risks:

Impact Rating

Descriptor	Score	Impact
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 Rating

Descriptor	Score	Likelihood
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

The 'heat map' below shows a different way of assessing risk by increasing the weighting of impact.

This works on a scoring of xy+y where x is likelihood and y is impact. This formula multiplies impact with likelihood then adds a weighting again for impact. The effect is to give extra emphasis to impact when assessing risk. It should be remembered that risk scoring often involves a degree of judgement or subjectivity. Where data or information on past events or patterns is available, it will be helpful in enabling more evidence-based judgements.

Impact		1 Remote	2 Unlikely	3 Possible	4 Probable	5 Highly Probable
Extreme/ Catastrophic	5	10	15	20	25	30
Major	4	8	12	16	20	24
Moderate	3	6	9	12	15	18
Minor	2	4	6	8	10	12
Insignificant	1	2	3	4	5	6

Likelihood

In interpreting the risk heat map above, likelihood is x and impact is y. The colour codes are:

Red – major or extreme/catastrophic risks that score 15 or more
Yellow – moderate or major risks that score between 8 and 14
Blue or green – minor or insignificant risks scoring 7 or less

Evaluating What Action to Take

Where major risks are identified, the Committee will need to make sure that appropriate action is being taken to manage them. This review should include assessing how effective existing controls are. For each of the major risks identified, the Committee will need to consider any additional action that needs to be taken to manage the risk, either by lessening the likelihood of the event occurring, or lessening its impact if it does.

Once each risk has been evaluated, the Committee will draw up a plan for any steps that need to be taken to address or mitigate significant or major risks. This action plan and the implementation of appropriate systems or procedures allows the Committee to make a risk management statement in accordance with any regulatory requirements.

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. The Committee need to form a view as to the acceptability of the net risk that remains after management.

In assessing additional action to be taken, the costs of management or control will generally be considered in the context of the potential impact or likely cost that the control seeks to prevent or mitigate. It is possible that the process may identify areas where the current or proposed control processes are disproportionately costly or onerous compared to the risk they are there to manage. A balance will need to be struck between the cost of further action to manage the risk and the potential impact of the residual risk.

Periodic monitoring and assessment

Risk management is a dynamic process ensuring that new risks are addressed as they arise. It should also be cyclical to establish how previously identified risks may have changed. Risk management is not a one-off event and should be seen as a process that will require monitoring and assessment.

There needs to be communication at all levels to ensure that individual and group responsibilities are understood and embedded into all Village Hall activities. A successful process will involve ensuring that:

- New risks are properly reported 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 implementation and monitoring of the control systems.
- Any further actions required are identified.
- The Committee considers and reviews the annual process.
- The Committee is provided with relevant and timely interim reports.

One method of codifying such an approach is through the use of a risk register. The register seeks to pull together the key aspects of the risk management process. It schedules gross risks and their assessment, the controls in place and the net risks, and can identify responsibilities, monitoring procedures and follow up action required. The trustees can monitor risk by:

- Ensuring that the identification, assessment and mitigation of risk is linked to the achievement of the Committee's operational objectives.
- Ensuring that the assessment process reflects the Committee's view of acceptable risk.
- Reviewing and considering the results of risk identification, evaluation and management.
- Receiving interim reports where there is an area needing further action.
- Considering the risks attached to significant new activities or opportunities.
- Regularly considering external factors such as new legislation or new requirements from funders.
- Considering the financial impact of risk as part of operational budget planning and monitoring.

Annex 1 – Shillington Village Hall Management Committee Risk Register

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 Committee.

The Committee need to form a view as to the acceptability of the net risk that remains after management.

Example

Risk area/risk identified	Lack of return/diversity of investment portfolio
Likelihood of occurrence (score)	Probable (4)
Severity of impact (score)	Major (4)
Overall or 'gross' risk	High (20)
Control procedure	• Investment policy set by trustees • Written instructions to FSA authorised investment advisor • Quarterly reviews by trustees
Retained or 'net' risk	Medium
Monitoring process	Performance reports reviewed quarterly by trustees
Responsibility	Trustees and Treasurer
Further action required	Quarterly agenda item for trustee meetings
Date of review	Quarterly

Risk Register

Risk area/risk identified	Damage to Building resulting in loss of income
Likelihood of occurrence (score)	2 (Unlikely)
Severity of impact (score)	4 (Major)
Overall or 'gross' risk	12
Control procedure	Insurance for damage & destruction Regular review of maintenance Annual review of insurance cover Annual review by trustees
Retained or 'net' risk	Low risk
Monitoring process	Annual review
Responsibility	Trustees
Further action required	None
Date of review	Annual at AGM

Risk area/risk identified	Fraudulent activities resulting in loss of funds
Likelihood of occurrence (score)	1 (Remote)
Severity of impact (score)	4 (Major)
Overall or 'gross' risk	8
Control procedure	Regular monitoring of accounts and amount in bank account Regular monitoring of bank statement Insurance for fraud Annual external audit
Retained or 'net' risk	Low Risk

Monitoring process	Regular monitoring of bank statement and annual audit
Responsibility	Trustees
Further action required	None
Date of review	Annual at AGM

Risk area/risk identified	Injury to third party or individuals
Likelihood of occurrence (score)	2 (Unlikely)
Severity of impact (score)	3 (Moderate)
Overall or 'gross' risk	9
Control procedure	Insurance in place for public liability Licensees have clear responsibilities and insurance in place Continual review of infrastructure changes to ensure no additional risks Installation of signage for identified risks
Retained or 'net' risk	Low Risk
Monitoring process	Regular inspection of infrastructure Regular liaison with licensees Annual review of insurance
Responsibility	Trustees
Further action required	None
Date of review	Annual at AGM

Risk area/risk identified	Legal liability as a consequence of asset ownership eg building
Likelihood of occurrence (score)	2 (Unlikely)
Severity of impact (score)	4 (Major)
Overall or 'gross' risk	12
Control procedure	Insurance in place Regular inspection and maintenance Required maintenance work to be carried out promptly Annual review of insurance
Retained or 'net' risk	Low Risk
Monitoring process	Regular inspection of infrastructure Regular liaison with licensees Annual review of insurance
Responsibility	Trustees
Further action required	None
Date of review	Annual at AGM

Risk area/risk identified	Conflict of interest of Trustees
Likelihood of occurrence (score)	1 (Remote)
Severity of impact (score)	3 (Moderate)
Overall or 'gross' risk	6
Control procedure	Conflict of interest policy in place
Retained or 'net' risk	Low Risk
Monitoring process	Conflict Check on decision making
Responsibility	Trustees
Further action required	None

Date of review	Annual at AGM

Risk area/risk identified	Loss damage or theft of Assets
Likelihood of occurrence (score)	2 (Unlikely)
Severity of impact (score)	2 (Minor)
Overall or 'gross' risk	6
Control procedure	CCTV in place Insurance in place
Retained or 'net' risk	Low Risk
Monitoring process	CCTV Annual review of insurance
Responsibility	Trustees
Further action required	None
Date of review	Review at AGM

Risk area/risk identified	Failure to report annual Accounts to Charity Commission
Likelihood of occurrence (score)	1 (Remote)
Severity of impact (score)	4 (Major)
Overall or 'gross' risk	8
Control procedure	Annual audit in place Annual review of accounts of AGM Accounts uploaded to Charity Commission website Annual review of Charity Commission requirements
Retained or 'net' risk	Low Risk
Monitoring process	Ensure annual audit takes place Check accounts are uploaded to Charity Commission website
Responsibility	Trustees
Further action required	None
Date of review	Review at AGM

Annex 2 – Examples of Potential Risk Areas, Their Impact and Mitigation

The nature of activities, funding base, reserves and structures will expose charities to differing areas of risk and levels of exposure. While the areas of risk identified at Annex 2 to Guidance Charities and Risk Management (CC26)[1] will deserve consideration by most charities, it is not an exhaustive list of all potential areas of risk and should not be a substitute for a charity undertaking its own processes for risk identification.

The risks are classified as follows:

- Governance
- Operational
- Financial
- Environmental or external
- Compliance (law or regulation)

Governance Risks

Potential Risk	Potential Impact	Steps to Mitigate Risk
The charity lacks direction, strategy and forward planning	• the charity drifts with no clear objectives, priorities or plans • issues are addressed piecemeal with no strategic reference • needs of beneficiaries not fully addressed • financial management difficulties • loss of reputation	• create a strategic plan which sets out the key aims, objectives and policies • create financial plans and budgets • use job plans and targets • monitor financial and operational performance • get feedback from beneficiaries and funders
Trustee body lacks relevant skills or commitment	• charity becomes moribund or fails to achieve its purpose • decisions are made bypassing the trustees • resentment or apathy amongst staff • poor decision making reflected in poor value for money on service delivery	• review and agree skills required • draw up competence framework and job descriptions • implement trustee training and induction • review and agree recruitment processes
Trustee body dominated by one or two individuals, or by connected individuals	• trustee body cannot operate effectively as strategic body • decisions made outside of trustee body • conflicts of interest • pursuit of personal agenda • culture of secrecy or deference • arbitrary over-riding of control mechanisms	• consider the structure of the trustee body and its independence • agree mechanisms to manage potential conflicts of interest • review and agree recruitment and appointment processes in line with governing document • agree procedural framework for meetings and recording decisions
Trustees are benefiting from charity (eg remuneration)	• poor reputation, morale and ethos • adverse impact on overall control environment • conflicts of interest • possibility of regulatory action	• ensure legal authority for payment or benefit • consider alternative staffing arrangements • implement terms and procedures to authorise/approve expenses and payments • agree procedures and methods to establish fair remuneration conducted separately from 'interested' trustee (remuneration committee/benchmarking exercise etc)
Conflicts of interest	• charity unable to pursue its own interests and agenda • decisions may not be based on relevant considerations • impact on reputation • private benefit	• agree protocol for disclosure of potential conflicts of interest • put in place procedures for standing down on certain decisions • review recruitment and selection processes

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/589944/CC26.pdf

Potential Risk	Potential Impact	Steps to Mitigate Risk
Ineffective organisational structure	• lack of information flow and poor decision-making procedures • remoteness from operational activities • uncertainty as to roles and duties • decisions made at inappropriate level or excessive bureaucracy	• use organisation chart to create a clear understanding of roles and duties • delegation and monitoring should be consistent with good practice and constitutional or legal requirements • review structure and the need for constitutional change
Activities potentially outside objects, powers or terms of gift (restricted funds)	• loss of funds available for beneficiary class • liabilities to repay funders • loss of funder confidence • potential breach of trust and regulatory action • loss of beneficiary confidence • taxation implications (if non-qualifying expenditure)	• agree protocol for reviewing new projects to ensure consistency with objects, powers and terms of funding • create financial systems to identify restricted funds and their application
Loss of key staff	• experience or skills lost • operational impact on key projects and priorities • loss of contact base and corporate knowledge	• succession planning • document systems, plans and projects • implement training programmes • agree notice periods and handovers • review and agree recruitment processes
Reporting to trustees (accuracy, timeliness and relevance)	• inadequate information resulting in poor quality decision making • failure of trustees to fulfil their control functions • trustee body becomes remote and ill informed	• put in place proper strategic planning, objective setting and budgeting processes • timely and accurate project reporting • timely and accurate financial reporting • assess and review projects and authorisation procedures • have regular contact between trustees and senior staff and managers

Operational Risks

Potential Risk	Potential Impact	Steps to Mitigate Risk
Contract risk	• onerous terms and conditions • liabilities for non-performance • non-compliance with charity's objects • unplanned subsidy of public provision	• create cost/project appraisal procedures • agree authorisation procedures • get professional advice on terms and conditions • put in place performance monitoring arrangements • consider insurable risks cover
Service provision - customer satisfaction	• beneficiary complaints • loss of fee income • loss of significant contracts or claims under contract • negligence claims • reputational risks	• agree quality control procedures • implement complaints procedures • benchmark services and implement complaints review procedures
Project or service development	• compatibility with objects, plans and priorities • funding and financial viability • project viability • skills availability	• appraise project, budgeting and costing procedures • review authorisation procedures • review monitoring and reporting procedures
Competition from similar organisations	• loss of contract income • reduced fund-raising potential • reduced public profile • profitability of trading activities	• monitor and assess performance and quality of service • review market and methods of service delivery • agree fund-raising strategy • ensure regular contact with funders • monitor public awareness and profile of charity
Suppliers, dependency, bargaining power	• dependency on key supplier • lack of supplier to meet key operational objectives	• use competitive tendering for larger contracts • put in place procedures for obtaining quotations

Potential Risk	Potential Impact	Steps to Mitigate Risk
	• non-competitive pricing/ quotes • insufficient buying power	• authorised suppliers listing • monitor quality/timeliness of provision • use service level agreements • consider use of buying consortia
Capacity and use of resources including tangible fixed assets	• under-utilised or lack of building/office space • plant and equipment obsolescence impacting on operational performance • mismatch between staff allocations and key objectives • spare capacity not being utilised or turned to account	• agree building and plant inspection programme • agree repair and maintenance programme • agree capital expenditure budgets • undertake efficiency review
Security of assets	• loss or damage • theft of assets • infringements of intellectual property rights	• review security arrangements • create asset register and inspection programme • agree facility management arrangements • have safe custody arrangements for title documents and land registration • manage use of patent and intellectual property • review insurance cover
Fund-raising	• unsatisfactory returns • reputational risks of campaign or methods used • actions of agents and commercial fund-raisers • compliance with law and regulation	• implement appraisal, budgeting and authorisation procedures • review regulatory compliance • monitor the adequacy of financial returns achieved (benchmarking comparisons) • stewardship reporting in annual report
Employment issues	• employment disputes • health and safety issues • claims for injury, stress, harassment, unfair dismissal • equal opportunity and diversity issues • adequacy of staff training • child protection issues • low morale • abuse of vulnerable beneficiaries	• review recruitment processes • agree reference and qualification checking procedures, job descriptions, contracts of employment, appraisals and feedback procedures • implement job training and development • implement health and safety training and monitoring • be aware of employment law requirements • implement staff vetting and legal requirements (eg DBS checks) • agree a whistle-blowing policy
High staff turnover	• loss of experience or key technical skills • recruitment costs and lead time • training costs • operational impact on staff morale and service delivery	• review interview and assessment processes • agree fair and open competition appointment for key posts • agree job descriptions and performance appraisal and feedback systems • conduct 'exit' interviews • review rates of pay, training, working conditions, job satisfaction
Volunteers	• lack of competences, training and support • poor service for beneficiaries • inadequate vetting and reference procedures • recruitment and dependency	• review and agree role, competencies • review and agree vetting procedures • review and agree training and supervision procedures • agree development and motivation initiatives
Health, safety and environment	• staff injury • product or service liability • ability to operate (see Compliance risks) • injury to beneficiaries and the public	• comply with law and regulation • train staff and compliance officer • put in place monitoring and reporting procedures
Disaster recovery and planning	• computer system failures or loss of data • destruction of property, equipment, records through fire, flood or similar damage	• agree IT recovery plan • implement data back-up procedures and security measures • review insurance cover

Potential Risk	Potential Impact	Steps to Mitigate Risk
		• create disaster recovery plan including alternative accommodation
Procedural and systems documentation	• lack of awareness of procedures and policies • actions taken without proper authority	• properly document policies and procedures • audit and review of systems
Information technology	• systems fail to meet operational need • failure to innovate or update systems • loss/corruption of data eg donor base • lack of technical support • breach of data protection law	• appraise system needs and options • appraise security and authorisation procedures • implement measures to secure and protect data • agree implementation and development procedures • use service and support contracts • create disaster recovery procedures • consider outsourcing • review insurance cover for any insurable loss

Financial Risks

Potential risk	Potential Impact	Steps to Mitigate Risk
Budgetary control and financial reporting	• budget does not match key objectives and priorities • decisions made on inaccurate financial projections or reporting • decisions made based on unreliable costing data or income projections • inability to meet commitments or key objectives • poor credit control • poor cash flow and treasury management • ability to function as going concern	• link budgets to business planning and objectives • monitor and report in a timely and accurate way • use proper costing procedures for product or service delivery • ensure adequate skills base to produce and interpret budgetary and financial reports • agree procedures to review and action budget/cash flow variances and monitor and control costs • regularly review reserves and investments
Reserves policies	• lack of funds or liquidity to respond to new needs or requirements • inability to meet commitments or planned objectives • reputational risks if policy cannot be justified	• link reserves policy to business plans, activities and identified financial and operating risk • regularly review reserves policy and reserve levels
Cash flow sensitivities	• inability to meet commitments • lack of liquidity to cover variance in costs • impact on operational activities	• ensure adequate cash flow projections (prudence of assumptions) • identify major sensitivities • ensure adequate information flow from operational managers • monitor arrangements and reporting
Dependency on income sources	• cash flow and budget impact of loss of income source	• identify major dependencies • implement adequate reserves policy • consider diversification plans
Pricing policy	• reliance on subsidy funding • unplanned loss from pricing errors • cash flow impact on other activities • loss of contracts if uncompetitive • affordability of services to beneficiary class	• ensure accurate costing of services and contracts • compare with other service providers • notify and agree price variations with funders • monitor funder satisfaction • develop pricing policy for activities including terms of settlement and discounts
Borrowing	• interest rate movements • ability to meet repayment schedule • security given over assets • regulatory requirements	• appraise future income streams to service the debt • appraise terms (rates available fixed, capped, variable etc) • appraise return on borrowing • use appropriate professional advice
Guarantees to third parties	• call made under guarantee • lack of reserves or liquidity to meet call	• review approval and authority procedures

Potential risk	Potential Impact	Steps to Mitigate Risk
	• consistency with objects and priorities	• agree procedures to ensure consistency with objects, plans and priorities • ensure financial reporting of contingency and amendment to reserves policy
Foreign currency	• currency exchange losses • uncertainty over project costs • cash flow impact on operational activities	• ensure proper cash flow management and reserves policy • use currency matching (cost to charity in home currency) • consider forward contracts for operational needs (hedging)
Pension commitments	• under-funded defined benefit scheme • impact on future cash flows • failure to meet due dates of payment • regulatory action or fines	• use actuarial valuations • review pension scheme arrangements (eg money purchase schemes) • review procedures for admission to scheme and controls over pension administration
Inappropriate or loss-making non-charitable trading activities	• resources withdrawn from key objectives • resources and energy diverted from profitable fund-raising or core activities • regulatory action, and accountability • reputational risk if publicised	• monitor and review business performance and return • ensure adequacy of budgeting and financial reporting within the subsidiary or activity budget • review and agree adequate authorisation procedures for any funding provided by charity (prudence, proper advice, investment criteria) • report funding and performance as part of charity's own financial reporting system • appraise viability • consider transfer of undertakings to separate subsidiary
Investment policies	• financial loss through inappropriate or speculative investment • unforeseen severe adverse investment conditions • financial loss through lack of investment advice, lack of diversity • cash flow difficulties arising from lack of liquidity	• review and agree investment policy • obtain proper investment advice or management • consider diversity, prudence and liquidity criteria • implement adequate reserves policy • use regular performance monitoring
Protection of permanent endowment	• loss of future income stream or capital values • buildings unfit for purpose • income streams inappropriate to meet beneficiary needs	• review and agree investment policy • obtain proper investment advice or management • consider diversity, prudence and liquidity criteria • use regular performance monitoring • ensure maintenance and surveyor inspection of buildings • review insurance needs
Compliance with donor-imposed restrictions	• funds applied outside restriction • repayment of grant • future relationship with donor and beneficiaries • regulatory action	• implement systems to identify restricted receipts • agree budget control, monitoring and reporting arrangements
Fraud or error	• financial loss • reputational risk • loss of staff morale • regulatory action • impact on funding	• review financial control procedures • segregate duties • set authorisation limits • agree whistle-blowing anti-fraud policy • review security of assets • identify insurable risks
Counter party risk	• financial loss • disruption to activities or operations	• research counter party's financial sustainability • contractual agreement • consider staged payments • agree performance measures

Potential risk	Potential Impact	Steps to Mitigate Risk
		• monitor and review investments • establish monitoring and review arrangements where counter party is the charity's agent ('conduit funding' arrangements

Environmental or External Factors

Potential risk	Potential impact	Steps to mitigate risk
Public perception	• impact on voluntary income • impact on use of services by beneficiaries • ability to access grants or contract funding	• communicate with supporters and beneficiaries • ensure good quality reporting of the charity's activities and financial situation • implement public relations training/procedures
Adverse publicity	• loss of donor confidence or funding • loss of influence • impact on morale of staff • loss of beneficiary confidence	• implement complaints procedures (both internal and external) • agree proper review procedures for complaints • agree a crisis management strategy for handling - including consistency of key messages and a nominated spokesperson
Relationship with funders	• deterioration in relationship may impact on funding and support available	• ensure regular contact and briefings to major funders • report fully on projects • meet funders' terms and conditions
Demographic consideration	• impact of demographic distribution of donors or beneficiaries • increasing or decreasing beneficiary class • increasing or decreasing donor class	• profile donor base • profile and understand beneficiary needs • use actuarial analysis to establish future funding requirements
Government policy	• availability of contract and grant funding • impact of tax regime on voluntary giving • impact of general legislation or regulation on activities undertaken • role of voluntary sector	• monitor proposed legal and regulatory changes • consider membership of appropriate umbrella bodies

Compliance Risk (Law and Regulation)

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 • loss of licence to undertake particular activity (see operational risks) • employee or consumer action for negligence • reputational risks	• identify key legal and regulatory requirements • allocate responsibility for key compliance procedures • put in place compliance monitoring and reporting • prepare for compliance visits • obtain compliance reports from regulators (where appropriate) - auditors and staff to consider and action at appropriate level
Regulatory reporting requirements: Financial and other reporting requirements will be dependent on how the charity is constituted and may also vary according to funding arrangements	• regulatory action • reputational risks • impact on funding	• review and agree compliance procedures and allocation of staff responsibilities
Taxation	• penalties, interest and 'back duty' assessments • loss of income eg failure to utilise gift aid arrangements • loss of mandatory or discretionary rate relief • failure to utilise tax exemptions and reliefs	• review PAYE compliance procedures • review VAT procedures • file timely tax returns • understand exemptions and reliefs available (direct tax and VAT) • take advice on employment status and contract terms and tax

Potential Risk	Potential Impact	Steps to Mitigate Risk
		• implement budget and financial reporting identifying trading receipts, and tax recoveries
Professional advice	• lack of investment strategy or management • failure to optimise fiscal position • contract risks • failure to address compliance risks	• identify and ensure access to professional advice • identify issues where advice is required • conduct compliance reviews