

CASHFACTS

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Risk management

The Charity Commission now requires charities to cover risk in their annual report. This factsheet looks at how charities should address risk and how to set-up a risk management system.

Considering some recent examples of failure (and the causes) may provide a motivation for you to draw-up a register of risks. All the examples below are of charities that closed.

Older Persons Lunch Club

An employee took the charity to an industrial tribunal and won. Due to personality conflicts the trustees did not want to pay the compensation awarded

and decided to close the club out of spite. The main funder - social services - heard about the imminent closure and withheld a quarter's funding.

This resulted in insolvency. The underlying problems were an inexperienced director who passed too much on to the trustee group - they had little knowledge of the modern world. Employee issues were not dealt with over several years.

Counselling Centre

The organisation was run as a co-op with workers reporting to trustees on a rotational basis. Trustees did not check that work which they were told was

done, was actually done. There was a lack of written reports to trustees.

Advice Centre

The Centre's staff were too busy to monitor the work and so prove that it was being done and prove to the funder what was being achieved. There was also over-dependence on one funder.

Community Centre

There was a lack of financial controls and financial reporting. There was a failure to understand the overhead costs of the Centre. Additionally there was theft from the bar - free drinks to friends - and committee infighting.

Women's Refuge

There was a breakdown in communication between staff and trustees. No financial reports were provided to trustees. After many months the trustees felt they could not fulfil their responsibilities and appointed a receiver (someone who winds up an organisation). The organisation was probably solvent, but the trustees did not know this and it became insolvent when the receiver was appointed as the funders could then withhold funding.

Community Nursery

The Nursery expanded beyond the manager's ability, taking on a range of projects that he could not handle.

There was poor rostering of staff, with too high a ratio of staff to children on many days. People were employed because they needed the money, rather than on the basis of the organisations needs.

There were no agendas or written reports for the trustees meetings and the role of the director was not defined or monitored. The payroll bureau was a contractor for the local authority, it failed to provide adequate information and a tax liability built up.

There was a minor fraud, reflecting poor financial controls. Now one of the poorest parts of the UK does not have a nursery.

Training Centre for Young People

The Centre failed to reach the outputs agreed in a contract with a government agency and did not provide written progress reports. As a result the group had cashflow problems and did not pay VAT and PAYE for about a year.

Following an audit by the funder action was taken to reclaim funds advanced through the funding contract. The bank provided records to the Inland Revenue and Custom and Excise (VAT) who were able to prosecute. Two company directors lost their houses.

The people involved were well intentioned, but naive and employed too many members of the same family.

Did you know?

People who work for small organisations are twice as likely to be hurt in an accident at work than people who work for larger organisations

Of victims of "acquaintance violence", 23% were assaulted by their organisation's customers or clients

Voluntary sector workers are twice as likely to take their employers to an industrial tribunal as private sector workers

Three out of ten employees in the UK experience mental health problems at some stage in their working lives. Five percent are suffering from major depression at this moment

One hundred charities in London are likely to close through insolvency this year

There are 25,000 trustee groups in London. Sixty of these groups will pay from their own resources towards damages awarded in industrial tribunals and debts associated with their charity. This failure rate compares favourably with the private sector, but still needs attention

Act now

All charities are now required to consider the risks facing their organisation and confirm in their annual report that they have done so. Many groups will have done this in a rush for last year’s audit or independent examination.

You should revisit the issue before the end of the financial year. Can you put it on the agenda for the next trustee’s meeting?

We show on the right a system for measuring risk that considers impact, how devastating an occurrence of the event would be to your organisation and the likelihood that the event will occur. This will help you decide what action to

A system for measuring level of risk

High Impact	<i>Industrial Tribunal</i>		
Medium Impact		<i>Loss of computer data</i>	
Low Impact			<i>Late delivery of newsletter</i>
	Likelihood Low	Likelihood Medium	Likelihood High

take. Consider in detail the events that fit into the high impact, medium impact and high likelihood boxes. It will probably be uneconomic to consider the other boxes.

Identify risks

Consider the major risks that would prevent the charity from achieving its objectives. Do not be overwhelmed by minor risks. You should consult widely because people in different situations will know about different risks faced by the organisation. Talk to trustees, all staff, volunteers, users and funders.

There are several measures for identifying risk including brainstorming sessions and market analysis tools:

- SWOT looks at present Strengths and Weaknesses and future Opportunities and Threats
- STEEPLE considers the Social, Technical, Economic, Environmental, Political, Legal and Ethical issues facing the organisation

Another approach is to go through the index of one of the main voluntary sector books such as *Just About Managing* by Sandy Arondack or the *Voluntary Sector Legal Handbook* by Arondack and Sinclair Taylor. Quality assurance systems like PQASSO identify and reduce risk.

Consider internal factors:

- Governance, management committee policies and practice
- Employment policies and practice
- Volunteer policies and practice
- Financial systems and controls
- Health and safety
- Insurance
- Services: quality and delivery systems

Consider external factors:

- Funding
- Laws: general like data protection or ones specific to your work e.g. the Children's Act
- Public awareness and sympathy: people are becoming less sympathetic to the homeless, for instance, and that could affect funding
- Taxation: is your PAYE system adequate?
- Demand: under community care demand for some services has risen. Can you cope?
- Labour market: can you recruit and train the staff that you need?
- Technology: will other organisations

adopt methods that are more competitive than yours?

Mitigation

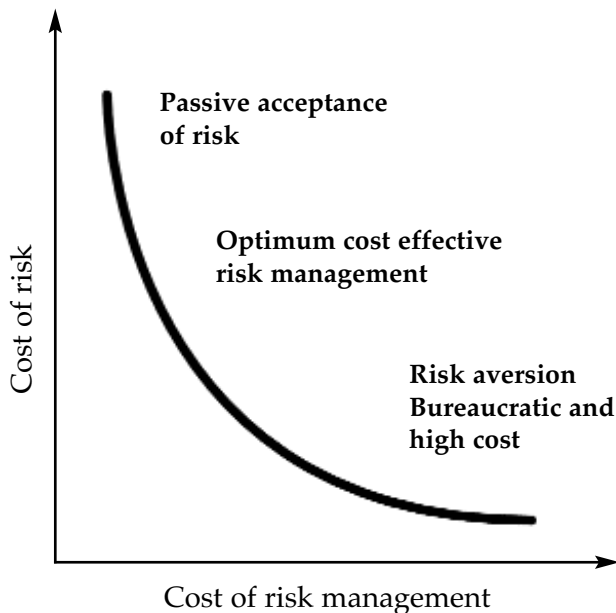
There are six ways of responding to risk:

- Reduce: use policies, procedures and training. Fire drills and inspections reduce risk of fire and death
- Avoid: stop doing the activity. Do not take on onerous contracts. Avoid writing comments that could put you in court
- Accept: a charity taking on a short-life license on office premise is accepting that it will have to leave the building sooner rather than later
- Transfer: insure and/or contract out some activities, for instance a sponsored bungee jump where someone else deals with the health and safety implications
- Price: increase the charge to the funder to cover additional insurance/staffing. This could be relevant when working with violent clients
- Exploit: a charity rescuing child slaves could exploit the risk factor it's volunteers face in its fundraising

Of course, a number of these approaches could be combined.

Risk and cost

The graph below shows the optimum position of risk management at reasonable cost. It considers both the low cost passive position where risks are likely to happen and high cost risk aversion where the organisation is likely to end up doing nothing! Risk registers



At the end of this factsheet there is a risk register which should be the core of your risk management system. Make sure that named people are accountable for monitoring identified risks.

Annual report

If you adopt a risk register your annual report could say: "The trustees have drawn-up a risk register which provides dates and details of actions to be taken to reduce risk. The charity also purchases a range of insurance policies".

Areas of risk

It is very important that you consider your own organisation and its particular services, its uniqueness and the risks that are associated with it. We cannot produce a list of all the risks that would cover every organisation. The following are just a few pointers.

Finances

- Are you up-to-date with the regulations?

- Do you have accurate, up-to-date bookkeeping? Are all invoices and funder records properly filed?
- Are there too many cash payments?
- Can expenditure be tracked to restricted funds and are the requirements of funders being met?
- Are funders monitoring returns being sent in on time?
- Are funder's outputs being achieved?
- Is there sufficient cashflow?
- Is the organisation collecting in all the money it is entitled to?
- When will the funding streams end?
- Is a finance report circulated to the trustees and does it analyse income and expenditure against the budget and show variances?
- Are there adequate controls to reduce the risk of theft and fraud?
- Do you need fidelity bond insurance (covers theft by staff)?
- Do you need trustee liability insurance - particularly suitable for unincorporated organisations?
- Will all the preparation for audit or independent examination be completed on time?
- Do you have and review a set of financial controls and procedures?

Purchasing

- Are you paying too much? Do you review

suppliers on a regular basis?

- Are goods of the right quality and do they arrive?
- Should contractors be PAYE employees?
- Are there approved limits on purchasing? Could the director buy a new car?
- Is there a staff/trustee code of conduct regarding matters like payments to family members etc?

Services/products for clients

- Specific legal requirements
- Quality and accuracy
- Risks to clients
- Risks from clients
- Staff training
- Costs and competition
- Level of demand - can you meet it?
- Insurance - read the policy exclusions
- Health and safety
- False allegations
- Equal opportunities
- Promotion and marketing
- Sourcing of supplies and trained staff

Employees

Does the manager have a good support system with access to solicitors, accountants, reference manuals and helplines when needed?

- Recruitment procedures
- Checks and references on new staff
- Supervision and annual appraisal - do they happen and are they of good quality?

Other areas

- Computers
- Other equipment
- Health and safety
- Buildings
- Volunteers
- Insurance policies
- Policies and procedures
- Environment issues
- Governance and trustees
- Legal issues

Parts of this factsheet has been inspired by *Managing Risk* by Caroline Clark, published by NCVO £15.00 (020 7713 6161).

Risk factor or event	Likelihood	Impact	Action/ Comment	Person Responsible	Monitoring	Insurance/ comment
Health & Safety Accident in office	Low	Low to High	Raise every 6 months at staff meetings Increase number of sockets by 3/03	Office Manager Director Office Manager	Director Trustees Director	Insured Insured
Accident in training venue	Low	Low to high	Venue to be checked when booked and checked on the day by the tutor	Tutors Director	Director Chair	Insured
Assault by client	Low	Low to High	Discuss with staff every six months	Director	Director Chair	Insured
Computers Eye strain Repetitive strain Back/posture	Low Low Low	Lo to Me Lo to Me Lo to Me	Usage not continuous Leaflet to employees every six months Good quality chairs and screens	Office Manager	Director	Insured
AGM Key note speaker does not turn up	Low	Low	Book two Speakers	Director	Chair	None
Accounts not ready	Low	Medium	Send draft to Independent Examiner in July Chase at end of August Put in diary	Director	Treasurer	AGM 28 Sept

Risk register

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