



Knight Charity Governance

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RISK MANAGEMENT



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Risk management

Risks are inevitable and the crystallisation of some of those risks into an adverse event is also common enough to be a reasonable likelihood. What is neither predictable nor common enough is having in place a good system to plan for and manage such events.

Some say risk management is largely planning for something that may not happen, the implication being not to bother. Two answers to that. First, if an adverse event does happen (and they do), the charity which is prepared will weather the storm most ably. Second, scenario planning such events will help design a strategy to try to avoid them and instead maximise positive outcomes, contented beneficiaries and a satisfied public. Plan for the bad to design the good.

Those charities which must have their accounts audited need to report on their risk management system in their trustees' annual report. But for all charities, of whatever size, risk management is a positive part of a healthy strategy to be robust whatever the weather.

Both the Charity Commission's published guidance and The Charity Governance Code includes risk management material. But in brief, how is it done? In 5 stages.

1. **Identify:** You need to know about a problem in order to deal with it. All those whose work enables them to see the difficulties which can arise in the operations of a charity should be alert for risks and know to whom to report. This includes trustees, senior management team and those involved in the charity's projects, finances, data management and regulatory matters. As to who should receive the notifications, this can be anyone who agrees to do so and has the capacity to consider and record such matters, probably the chair, CEO or a designated trustee or senior team member. Good judgement is essential. Identifying and dealing with risk must be an ongoing habit, not an annual occasion.
2. **Assess:** The person receiving the risk reports above should then evaluate the risk, to record and report on its seriousness. It is possible this step could be performed by somebody else but that would add a link to the chain of risk management, so this is not ideal. If the charity has a number of staff and the relevant expertise is disbursed among them, the person assessing risk should liaise with anyone who is in a position to assist; eg a finance manager / director for a financial matter. A common assessment method involves scoring (say, from 1 to 5) the likelihood of occurrence of an adverse event as well as the seriousness if it does occur; then combining the two scores and recording them in the risk register will naturally create priorities (see below). Remedial or mitigating actions can then be devised appropriately.

3. **Prioritise:** Once a risk has been reported and assessed, it needs to be placed into the charity's risk management system alongside other risks. This will need to reflect the assessment above (with the scoring), the appropriate mitigation or remedial action, the timescale and the named person to be responsible. Once this is considered alongside other existing risks and the remaining ongoing work of the charity, the priority level can be finalised and decided.
4. **Act:** The action to mitigate or manage the risk should by now have been agreed and set out, or at least it should be in development subject to ongoing review. This action will be specific to each risk but actions can include: ignoring, avoiding, negotiating, staffing, managing, sharing, obtaining advice, insuring and monitoring. Each risk and its mitigating action should be assigned a named person in the charity who accepts being responsible and a timescale by when the action should be taken (even if that is only monitoring and reviewing).
5. **Review:** Circumstances change and so do risks, so each risk and its mitigating action should be reviewed by its deadline or at sensible intervals. Either the mitigation actions will be successful, or they will fail (partially or fully), or circumstances will change. The risk's entry in the risk management register will then need to be reviewed so it can be removed, required action changed, and the priority increased or decreased. A new timescale should be set for any risk which remains in the register.

A charity should have a Risk Management Policy reflecting the above as well as a Risk Management Register and each should be reviewed annually (although the Register is also an ongoing and dynamic work as explained above).