Risk Management

The absence of an effective risk management process can dramatically impede trustees' ability to perform.

Is your Approach to Risk Management Fit for Purpose?

Most trustees know that risk management is something that they need to be involved in. However, for many it is seen as just another regulatory hoop their organisation needs to jump through with only a minimal value to the organisation.

It is no secret that charities often have limited resources available to invest in a risk management process, and it probably isn't surprising that the task is sometimes delegated to one or two individuals who may piece together a rudimentary risk register as a desktop exercise.

With such a limited perspective of the organisation, the resulting discussions at board level tend to quibble on the deemed severity or likelihood of risks or focus on one or two key risk areas rather than standing back and considering whether the overarching framework is fit for purpose.

If this describes your organisation's current approach to risk management (either fully or in part), then your organisation is potentially ignoring one of its most useful tools in its governance tool box and the consequences could be catastrophic.

Why should my Organisation Prioritise its Engagement with Risk Management?

Governance should be about oversight, which means steering the organisation's vision, mission and strategy. In my experience, the absence of an effective risk management process can dramatically impede trustees' ability to perform this role.

If you find that trustees meetings are focusing too heavily on operational decisions rather than the organisation's strategic direction, the chances are that the trustees are not being given enough peripheral information of the organisation and its likely challenges to properly 'steer the ship'.

A properly implemented and effective risk management strategy can address this. By managing risk effectively, trustees can also help ensure that:

- Internal reporting functions, such as management accounts, are constructed to monitor and report on risky aspects of the operation, enabling trustees to make pro-active and timely decisions.
- Reserves policies properly reflect and adapt to the risk environment.
- The charity makes the most of opportunities and develops them knowing that risks will be managed. Risk management isn't just about things going wrong, although with the effects of the pandemic, you might be forgiven for thinking so.

What does an Effective Risk Management Framework look like?

To be effective, a risk management framework requires the buy in and involvement of a wide range of people. The idea that one or two individuals can undertake this work from an 'ivory tower' is a common, yet fatal mistake.

Ideally, everyone in the organisation should have an awareness of the risk management framework and be able to feed in their concerns, at any time during the year. Where appropriate, specialist software can be used to allow risks to be identified and passed up the chain for consideration in 'real-time', resulting in a living and breathing system within the organisation. It is also a misnomer that the process should purely focus internally. There is nothing stopping a charity from discussing risk with external stakeholders and indeed this approach should be encouraged. Beneficiaries and key funders can all help contribute towards the organisation's appraisal of risk and many would value being asked for their involvement as it reinforces the message that your charity values stakeholders' views.

It is also critical to be able to identify and address risks quickly. For example, cybercrime is increasing and with the shift to more agile, remote working opportunities, organisations are even more heavily dependent on IT functionality and infrastructure. As auditors we are hearing of more and more attempted attacks against smaller organisations too. The writing is on the wall. Ensure that your IT is fit for purpose or pay the price.

Yet, despite this very clear warning, many charities continue to spend a significantly lower amount on cyber security than similar sized commercial organisations. One wonders why, as a sector, it is taking charities so much longer to acknowledge and adapt to this very real and emerging risk?

The framework also needs to effectively prioritise and disseminate the information it collects for different users. Those delivering services are likely to need detailed information on their operations, while trustees will be looking for summarised information on the top risks. This in turn should allow the right types of decision to be made at the right level.

Did you know?

The Charity Commission's main guidance is document CC26 "Charities and risk management". It is a legal requirement for charities over the audit threshold to discuss risk management in their annual accounts and it is encouraged for smaller charities too. A description of the principal risks, together with a summary of the plans and strategies for managing those risks should be included. If your risk management is effective, this is a good opportunity to demonstrate effective governance.

How do I know if my Charity is Managing Risk Effectively?

It is helpful for boards to ask themselves the following questions on a regular basis:

- Are you regularly discussing risk at a board level? An annual run through the risk register probably isn't going to be sufficient. Boards should be continually thinking about risk and the mechanisms for identifying and working with them.
- Does risk management help you to make strategic decisions? A risk management framework should steer the organisation's strategy. If you are not receiving the necessary KPIs to monitor your most significant risks and not feeding risks into your strategy (such as your reserve's policy), chances are you are not using the risk management systems to 'steer the ship'.
- Are you listening to everyone in the organisation? Risk management is the responsibility of everyone and the more people who engage with it, the more powerful and useful it will become. It may be a big cultural change to engage staff in this way, but the efforts will pay dividends.
- Are you identifying risk through discussion with your key stakeholders? Stakeholders such as beneficiaries and funders will likely have helpful and unique insights into your organisation's risks. Not listening to them could be catastrophic.
- Are you getting the right information at the right levels in the organisation? Trustees need high level summaries, while other people may require greater detail.

How we can help

If you are a trustee or a Senior Manager, it is worth asking your boards to consider the effectiveness of your charity's risk management framework. It's a simple yet powerful tool that can greatly improve governance within an organisation. If you have any questions arising from this article or would like to speak to a member of our team about how we can help, please get in touch with your local MHA member firm.

If you would like to discuss any matter arising from this article please contact MHA on info@mha-uk.com or your usual MHA contact.