

# **A Guide to Risk Assessment**

## **To Risk or Not to Risk?**

The Statement of Recommended Practice 2000 (SORP 2000) requires that Charities' Trustees consider the risks their charity is exposed to. They must state in the charity's Annual Report that they have considered and identified risks and that they have put measures into place to lessen the impact of those risks.

This is a legal requirement for charities with a gross income of over £250,000, but the Charity Commission considers that smaller charities should be encouraged to establish a risk policy as a matter of good practice. They believe that a risk policy will help demonstrate the charity's accountability to its stakeholders (funders, beneficiaries and the public).

## **What exactly do they mean by risks?**

Risk is just part of everyday activities, and the type of risks your charity faces very much depends on what it does. There are, however, some main areas to consider and risks come from within the charity as well as from the outside.

Main areas of risk:

- Governance risks: bad internal organisation, unsuitable trustees, conflicts between trustees and management etc.
- Operational risks: quality of service, fraud and misappropriation etc.
- Financial risks: inaccurate financial information, inadequate reserves and cash flow, inadequate diversity of income sources etc.
- External risks: adverse publicity, demographic changes, government policy etc.
- Compliance with law and regulation: breach of trust law, employment law, non-compliance to requirements for fund raising activities etc.

## **How do we assess the risks our organisation faces?**

Above all it should be a consultative and participatory exercise involving all of the major stakeholders. Trustees, volunteers, staff and funders will have different insights into the charity. Inclusive consultation will give you a more balanced and rounded view of the risks you face.

Consultation could take place through your existing structures such as staff or trustee meetings and away days. The process itself does not need to be complicated and you can start simply by looking at the charity and the things it does, making a list and asking some "What if" questions such as: What will happen if we lose one of our major funders?

## **We have identified our major risks, what do we do next?**

The risk assessment process has a positive side, although you may not think so when you look at the list of potential problems and what you need to do to correct them. The process makes you look at everything more carefully and identify and correct weaknesses in your organisation.

The usual technique is to classify risks in term of occurrence and impact: Are they likely to occur and what is the likely impact on your organisation? This will help you put things in perspective and prioritise your actions. Something which is likely to happen, and will have a serious impact on the organisation, should be dealt with first.

**Organisations adopt various strategies when dealing with risk. You can choose to:**

- avoid it altogether (avoid some contract with expensive getting out clauses)
- accept the risk
- reduce the risk (by strengthening your controls and policies)
- transfer the risk (insurance)
- minimise the impact of the risk.

**Some useful things to consider**

- Do you have enough information on funding opportunities? And is there competition for funding?
- Are you aware of regulations regarding PAYE, business rates, fundraising?
- Does the AGM and election practice conform to the constitution?
- Are your recruitment procedures in line with employment law, funders and budgetary requirements? Is there a complaints policy?
- Is the office a secure environment?
- Have you got backing up procedures for your data?
- Is there a clear and accurate accounting system? Is there a system for dealing with cash transactions?
- Are you insured? Are you displaying your certificate of employer's liability insurance?
- Are there risks to/from clients?