Introduction

Welcome to the first in a series of guides designed specially to help charities make sense of risk management.

We hope it will help you set up a risk management framework that's right for your charity.

Some definitions

What is a risk? A risk is something uncertain – it might happen or it might not. A risk matters because, if it happens, it will have an effect on objectives.

And risk management? Any activity taken to identify and then control the level of risk which objectives face.

An issue is something different! Risks and issues are often mentioned in the same breath. The difference is that an issue is an unplanned event that's already happened and needs action to manage it.

Why manage risks?

Because managing risks effectively helps organisations achieve their objectives more successfully and helps protect their funds and assets.

Process overview

There are lots of risk management standards to choose from. Most are based on ISO 31000, which is recognised across the world. This guidance sets out the key elements of ISO 31000 and is consistent with Charity Commission guidance.

The diagram here reflects the 2018 version.

This diagram summarises the risk management process as set out in ISO 31000

Establish the context

Be clear about your objectives You need to set out your objectives before you can identify the risks they face. Make sure you know what factors will be critical to success.

Risk assessment

There are 3 elements to this This section will help you understand the risks your charity faces. All risks are not the same so you will need to do some analysis and evaluation to make sure you manage them effectively.

IDENTIFICATION

Be methodical about this It's very easy to reel off a handful of key risks and think that's enough. But you really need to make sure you've considered all possible sources of risks. For example, if you're baking a cake you can have all the ingredients but they are no use to you without a functioning oven!

Think about different categories of risks It can be helpful to think about risks by category to ensure you don't overlook anything. Some categories to consider are strategic, project, financial and operational.

Consult other people Everyone has a different point of view when it comes to risks. But relying on a few opinions won't give you the full picture. Talk to your colleagues and stakeholders. A workshop is one way of doing this. An alternative is an online survey or meeting.

Record the risks You'll need to record the risks you identify so they can be monitored and reviewed. Our simple risk register template provides a good start.

ANALYSIS

Some risks may be more serious than others You'll need to think how likely it is that the risk would occur, what the consequences might be (there could be more than one!) and what impact these would have on your objectives.

Risks can have a positive effect too! We tend to think of risks as a bad thing but risks can present opportunities. E.g. we worry about high staff turnover but it could mean we bring in new skills.

EVALUATION

'Score' the risk There are various ways of doing this – see our 'Getting started' guide. Scoring will help you decide where you need to focus attention.

Risk treatment

THE 4 T'S

Identifying risks is not enough to make them go away!
Now you've identified and assessed your risks you should decide what, if anything, must be done to reduce the likelihood of the risk occurring or minimise its harmful impact if it happens.

A common way to approach this it to decide whether to **Treat**, **Tolerate**, **Terminate** or **Transfer** the risk (the 4 T's!)

You'll probably decide to 'treat' most risks For the most severe risks you will almost certainly decide to take action. Deciding what would cause the risk to happen, and the impact it would have on your objectives, is the best way to decide what action to take. For example, if the risk is staff leaving, you need to understand whether the issue is poor morale or if salaries are higher elsewhere.

Make sure that the cost of any action you take is proportionate – you wouldn't spend £1m to prevent a loss of £100k for example.

But sometimes it's OK to do nothing You don't have to leap into action for every risk. If there's a fairly low likelihood of it happening, or the impact would be low if it did, then you might decide to 'tolerate' the risk and do nothing unless it becomes more serious. But make sure everyone knows that's an informed decision.

You might have to stop the risky activity Occasionally you might identify a risk that would have such a severe impact on your objectives that you have to 'terminate' the activity causing the risk. This will depend on your 'risk appetite' which we'll tell you more about in a future guide.

Consider insurance and contracts Insurance isn't available for everything and can be an expensive option, but there are some risks you can transfer in this way. You may also find you can use contracts to transfer risk.

Appoint an owner for each action Make sure that each action you decide to take has an 'owner' who will be responsible for ensuring the action is implemented and for reporting on progress. Make sure everyone in the organisation knows who the 'owner' is.

Monitor and review

A common mistake people make is to identify their risks, come up with some actions to address them, record it all carefully on a risk register and then file it away, never to see the light of day again.

Risks change – consider them regularly And by that we don't mean just once a year! For fast moving projects you might need to review risks as often as weekly but for more strategic risks quarterly might be enough.

Risks do change. Sometimes external factors can mean that a risk reduces or increases. And the action you're taking should be reducing risk.

Check the action you're taking – is it effective? Check that any action you've decided to take is having the desired effect. If you're doing everything you planned but the risk is still as severe as it was before then you need to take stock. Do you need to stop and do something else instead? Or do you just need to do more of what you're doing?

Update your risk register Remember to update this after every review. Record the reason for any changes you make.

Communication and consultation

Tell relevant stakeholders about your progress Risks are usually managed at different levels within an organisation. There might be project and business unit risk registers, as well as a corporate risk register. Different people will be interested in each and you will need to agree with management who needs to see what.

Produce a regular risk report and don't forget to include a risk statement in your annual report The risk register alone might not tell the full story. Management and Trustees will want to know how effective risk actions are, whether risk scores have changed and why and whether any risks have been closed or new risks identified.

For risks that could have a severe impact on organisational objectives it's likely that senior management or the trustees will make decisions about what action is taken. They may also identify new risks based on the information provided.

Encourage people to Speak Up! People need to have an opportunity to speak out about serious concerns. We advocate that your organization develops and communicates an effective Whistle Blowing policy alongside the Risk Policy.

Set up your risk framework

So now you know what risk management is all about you can decide how best to implement it in your charity.

Decide who will be responsible for risk management It's a good idea to have someone who is responsible for risk management across the charity. They won't manage all the risks but will make sure there is an agreed policy and process and will co-ordinate all the risk management activity.

Establish a policy You'll need a risk management policy that sets out how things will be done. Remember to keep this proportionate to the size of the charity and the work that you do. If you are a large international charity delivering a range of activities, then the process will be more complex than for a small charity focusing on one type of service in one location.

Think about training and guidance needed If your charity is just getting started with risk management you might need to arrange some training for key staff. You'll need to supplement this with some guidance. This leaflet might meet some of your critical needs.

Further information

WANT TO FIND OUT MORE?

Look at the IRM website
IRM has a dedicated webpage for charities, links to our Charities Special Interest Group and a wide range of guidance and advice about risk management. Check out the website at www.theirm.org

Joining IRM as a member gives you access to an even wider range of resources, networks and benefits.

IRM's Charity Special Interest Group
Find out more about our Charity SIG and get contact details at:
www.theirm.org/events/special-interest-groups/charities/

Check the Charity Commission's guidance
'Charities and Risk Management' is available at
www.charitycommission.gov.uk/

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Risk management for charities

Getting started

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