

XYZ Charity

Charity risk policy



This is an example board policy on risk management. It helps define the charity's framework for the management of major risks. It will typically accompany a strategic risk register. The Charity Commission provides useful guidance in its publication 'Charities and Risk Management' (cc26).

The XYZ Charity is responsible for a range of diverse activities; all activities are subject to a certain degree of risk, some more than others. The XYZ Charity has established systems for all areas of its work to ensure that standards and quality are maintained. Risk assessment and risk management form a critical part of these systems; they are about the management of risk, not the avoidance of risk. Risk is a critical element of some of our activities which should be encouraged but also understood.

This policy addresses strategic or major risk management within XYZ Charity, as defined below. Operational risk management is wholly the responsibility of the senior management team except where the evaluation of such risks means consideration is escalated to the relevant sub-committee or Trustees.

Aims

The aims of introducing strategic risk management into the XYZ Charity are to discharge management and Trustees' responsibilities to manage risks, as well as to implement good practice with due regard to effective corporate governance and the guidance initially set out in the Turnbull Report.

What is the regulatory requirement for risk management?

The Charity Commission expects every charity to consider risk management and to make disclosures in the Trustees' Annual Report. The Charities Statement of Recommended Practice (SORP) 2015 states:

"A statement should be provided confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage those risks."

What is major risk?

Major risks are considered to be the strategic risks faced by XYZ Charity. Generally, a major risk can be identified in a management context as an obstacle to the achievement of the organisation's objectives. Key risks will be those that impinge on the key objectives of the organisation. A high-level risk assessment will go through the strategic plan for the organisation and identify key risks from the organisational objectives and strategic goals.

For the XYZ Charity, risks could be anything that pose a threat to the achievement of our strategic objectives, major projects or significant activities, or anything that could substantially damage our reputation or undermine the public's confidence in the XYZ Charity.

It is essential that we have effective mechanisms in place both to identify and manage major risks, as well as planning for the future to ensure that risks are minimised. This is achieved through the establishment of a comprehensive Strategic Risk Policy and by identification of all relevant major risks in a Strategic Risk Register.

Key features of risk management

Risk management will be fully integrated with the XYZ Charity's business planning process using the following steps:

- 1. Clarify strategic objectives** – Formulating a clear mission statement, aims, objectives and plans for delivery of objectives. Objectives must be communicated throughout the XYZ Charity.
- 2. Identification of major risks** – Recognising and identifying the key risks for which the XYZ Charity is responsible and those risks which are most likely to impact on our performance and delivery of services.
- 3. Assessment of risks** – **analyse** and **evaluate** risks to provide an overall assessment of the potential impact of identified risks and the timescale over which risks need to be managed. **Analysis** – determine existing controls and their reliability in terms of minimising the risks maturing and if the risks do mature, minimising the consequences. **Evaluation** – enables risks to be ranked to set management priorities.
- 4. Response to risk** – Determining the level and type of risk that is acceptable, the resources needed to manage risks and prioritising and allocating responsibility for them.
- 5. Monitoring and review** – Risk management is a continuous process and should be monitored on a regular basis.



Risk management process

The business planning process will be used as the primary means of identifying, prioritising and managing risk.

- All staff identify the operational risks associated with their projects as part of the business planning process.
- The operational project risks are prioritised by managers who will take individual ownership of them and propose means of best managing them.
- The senior management team will consider operational and strategic risks, assign ownership and propose means of best managing them.
- Risks will be reviewed quarterly by senior management to monitor changes and check progress of mitigation measures.
- A risk assessment will be organised annually as part of the strategic planning process undertaken both by Trustees and senior management.

Risk appetite/tolerance

The organisational appetite for risk depends upon the risk itself and will be considered on a case-by-case basis. Consideration of whether an activity should take place (and the associated risks of undertaking that activity) will be taken at a strategic planning stage. **The Charity will adopt one of the following:**

1 - An overall risk appetite:

The Trustees have concluded that the overall risk appetite of (the XYZ Charity) is **(select one)**:

- **Averse:** Avoidance of risk and uncertainty is a key organisational objective.
- **Minimal:** Preference for ultra-safe options that are very low risk and only have a potential for limited reward.
- **Cautious:** Preference for safe options that have a low degree of risk and may only have limited potential for reward.
- **Open:** Willing to consider all potential options and choose the one most likely to result in successful delivery, while also providing an acceptable level of reward and value for money.
- **Hungry:** Eager to be innovative and to choose options offering potentially higher business/charitable rewards, despite greater inherent risk.

OR

2 - Make a risk appetite statement:

The organisation places the safeguarding of its beneficiaries as a top priority, as such there is no appetite for accepting risk in this regard. The organisation takes pride in its service level and is cautious in this regard, however, it would always seek to expand its horizons and is not averse to new ideas or approaches, though it would not wish to be seen as unconventional. As the organisation is statutory funded, it seeks to diversify its income streams and is open in this regard.

OR

3 - Set appetites for different areas:

For the following areas the Trustees have concluded that the risk appetite set is **(select one)**:

| | |
|------------------------------|---|
| Administration | Averse, Minimal, Cautious, Open, Hungry |
| Charitable activity 1 | Averse, Minimal, Cautious, Open, Hungry |
| Charitable activity 2 | Averse, Minimal, Cautious, Open, Hungry |
| Charitable activity 3 | Averse, Minimal, Cautious, Open, Hungry |
| Charitable activity 4 | Averse, Minimal, Cautious, Open, Hungry |
| Facilities | Averse, Minimal, Cautious, Open, Hungry |
| Fundraising | Averse, Minimal, Cautious, Open, Hungry |
| Communications | Averse, Minimal, Cautious, Open, Hungry |

Evaluation of risks

An impact evaluation of all risks will be undertaken and the probability of each risk occurring should be estimated. Currently the likelihood and impact are assessed as **Very Low, Low, Moderate, High or Very High, .**

Definitions

Likelihood:

1. **Very Low** = Highly unlikely - will not occur in next three years
2. **Low** = Remote - unlikely to occur in next three years
3. **Medium** = Possible - may occur in next three years
4. **High** = Probably in next 12 months
5. **Very High** = Certain in next 12 months

Impact: (It is noted that financial measures are not the only way to define impact, but can be a useful proxy.)

6. **Very Low** = Minor impairment in operational targets - rectifiable by managers (typically < £5,000)
7. **Low** = Achievement of objective in strategic plans partly impaired - rectifiable by line managers (typically < £10,000)
8. **Medium** = Failure to achieve objective in operational plan - for consideration by Chief Executive/senior managers (typically <£50,000)
9. **High** = Critical impairment in achieving strategic plan - for consideration by trustee committees (typically > £50,000)
10. **Very High** = Failure to achieve organisation's overall objectives- for consideration by full board (typically >£250,000)



Response to risk

Where possible the organisation will seek to manage all significant risks above risk tolerance levels by one of three options - avoiding, sharing/transferring, and mitigating risks. Where none are appropriate it may be necessary for the risk to be accepted as an aspect of the organisation's activities.

Gross risk represents the risk diagnosed through a combination of assessment of impact and likelihood. Retained (net) risk represents the severity of the risk after the effects of risk management have been considered. Risk assessment and the mapping of actions plans will be documented annually in a risk register.

Effectiveness of strategic risk management will be considered throughout the year by Trustees/Audit Committee as set out in the risk action assessment. An evaluation of risk will be present in the risk register and the response to each risk will be discussed with relevant personnel. As a result the risks can be accepted, treated via the application of mitigation strategies or terminated.

Assurance

Regular quarterly reports of risks arising and their mitigation will be reviewed by the senior management team to provide assurance on how risk management is being effected. A review of risk management will be undertaken on a regular basis by Internal Audit and the Audit Committee.

Embed and review

The establishment of effective risk management procedures should not be a one-off event. Risk management will become an integral part of the XYZ Charity's management processes considered in association with regular reviews of strategy and objectives.

Roles and responsibilities

All XYZ Charity staff and Trustees will be involved and have an important part to play in the identification and management of risk. Staff will be informed of the importance of risk identification through workshops or through interviews with management. The risk action assessment requires that Trustees take ownership for monitoring gross risks identified with a risk score of 12 or above and to be satisfied that appropriate risk mitigation actions are taking place. The risk owners of those risks that scored less than 12 are respectively, the Chief Executive, senior management team or charity management.

Specific responsibilities have been allocated as follows:

Senior Management Team and Chief Executive

- Collectively responsible for the management of risks at the XYZ Charity.
- Identification of strategic risks.
- Ensuring that the XYZ Charity has a strategic risk management policy and processes and that these are communicated to, and understood by all staff.

Audit Committee

Monitor the effectiveness of the XYZ Charity's risk management procedures via the ongoing review of the system of internal control.

Director [of Finance] – planning and coordination

- Responsible for developing the risk management policy and processes, specifically the coordination of the risk review and the categorisation and evaluation of risks identified.
- Ensuring strategic risks are regularly reviewed by the senior management team.

Head of Internal Audit

- Provision of independent assurance to the senior management team and the Audit Committee on the effectiveness of the risk management policy and processes.
- Provide advice on strategies available.

Trustees

- Trustees should be aware of the risk to the reputation of the XYZ Charity from activities that they may undertake elsewhere.
- Trustees should seek assurance from the Audit Committee that appropriate strategic risk management procedures are in place.
- Annual review of approach to evaluation and mitigation of major risks.

Staff

- All staff should be aware of the importance of risk management. There should be formal channels of communication both up and down to identify and manage risks.

Risk register

A copy of the template for the organisation's strategic risk register is attached. (Template available on Trustee Hub)

Approved by the Board of Trustees

Date: xx/xx/xx

Policy review Date: xx/xx/xxxx

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

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