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The Cultural Partnership: more arts.

Incorporated Charitable Organisation No.1154785

APPENDIX TO P&P/ma013 – RISK MANAGEMENT

(Guidelines provided by the Charity Commission)

GOVERNANCE RISKS

| Potential risk | Potential impact | Steps to mitigate risk |
| --- | --- | --- |
| The charity lacks direction, strategy and forward planning | • the charity drifts with no clear objectives, priorities or plans • issues are addressed piecemeal with no strategic reference  • needs of beneficiaries not fully addressed • financial management difficulties • loss of reputation | • create a strategic plan which sets out the key aims, objectives and policies • create financial plans and budgets • use job plans and targets • monitor financial and operational performance • get feedback from beneficiaries and funders |
| Trustee body lacks relevant skills or commitment | • charity becomes moribund or fails to achieve its purpose  • decisions are made bypassing the trustees • resentment or apathy amongst staff • poor decision making reflected in poor value for money on service delivery | • review and agree skills required • draw up competence framework and job descriptions  • implement trustee training and induction • review and agree recruitment processes |
| Trustee body dominated by one or two individuals, or by connected individuals | • trustee body cannot operate effectively as strategic body • decisions made outside of trustee body • conflicts of interest • pursuit of personal agenda • culture of secrecy or deference • arbitrary over-riding of control mechanisms | • consider the structure of the trustee body and its independence • agree mechanisms to manage potential conflicts of interest • review and agree recruitment and appointment processes in line with governing document • agree procedural framework for meetings and recording decisions |
| Trustees are benefiting from charity (eg remuneration) | • poor reputation, morale and ethos • adverse impact on overall control environment • conflicts of interest • possibility of regulatory action | • ensure legal authority for payment or benefit • consider alternative staffing arrangements • implement terms and procedures to authorise/approve expenses and payments • agree procedures and methods to establish fair remuneration conducted separately from ‘interested’ trustee (remuneration committee/benchmarking exercise etc) |
| Conflicts of interest | • charity unable to pursue its own interests and agenda • decisions may not be based on relevant considerations • impact on reputation • private benefit | • agree protocol for disclosure of potential conflicts of interest • put in place procedures for standing down on certain decisions • review recruitment and selection processes |
| Ineffective organisational structure | • lack of information flow and poor decision making procedures • remoteness from operational activities • uncertainty as to roles and duties • decisions made at inappropriate level or excessive bureaucracy | • use organisation chart to create a clear understanding of roles and duties • delegation and monitoring should be consistent with good practice and constitutional or legal requirements • review structure and the need for constitutional change |
| Activities potentially outside objects, powers or terms of gift (restricted funds) | • loss of funds available for beneficiary class • liabilities to repay funders • loss of funder confidence • potential breach of trust and regulatory action • loss of beneficiary confidence • taxation implications (if non-qualifying expenditure) | • agree protocol for reviewing new projects to ensure consistency with objects, powers and terms of funding • create financial systems to identify restricted funds and their application |
| Loss of key staff | • experience or skills lost • operational impact on key projects and priorities • loss of contact base and corporate knowledge | • succession planning • document systems, plans and projects • implement training programmes • agree notice periods and handovers • review and agree recruitment processes |
| Reporting to trustees (accuracy, timeliness and relevance) | • inadequate information resulting in poor quality decision making • failure of trustees to fulfil their control functions • trustee body becomes remote and ill informed | • put in place proper strategic planning, objective setting and budgeting processes • timely and accurate project reporting • timely and accurate financial reporting • assess and review projects and authorisation procedures • have regular contact between trustees and senior staff and managers |

OPERATIONAL RISKS

| Potential risk | Potential impact | Steps to mitigate risk |
| --- | --- | --- |
| Contract risk | • onerous terms and conditions • liabilities for non performance • non-compliance with charity’s objects • unplanned subsidy of public provision | • create cost/project appraisal procedures • agree authorisation procedures • get professional advice on terms and conditions • put in place performance monitoring arrangements • consider insurable risks cover |
| Service provision - customer satisfaction | • beneficiary complaints • loss of fee income • loss of significant contracts or claims under contract • negligence claims • reputational risks | • agree quality control procedures • implement complaints procedures • benchmark services and implement complaints review procedures |
| Project or service development | • compatibility with objects, plans and priorities • funding and financial viability • project viability • skills availability | • appraise project, budgeting and costing procedures • review authorisation procedures • review monitoring and reporting procedures |
| Competition from similar organisations | • loss of contract income • reduced fund-raising potential • reduced public profile • profitability of trading activities | • monitor and assess performance and quality of service • review market and methods of service delivery • agree fund-raising strategy • ensure regular contact with funders • monitor public awareness and profile of charity |
| Suppliers, dependency, bargaining power | • dependency on key supplier • lack of supplier to meet key operational objectives • non-competitive pricing/quotes • insufficient buying power | • use competitive tendering for larger contracts • put in place procedures for obtaining quotations • authorised suppliers listing • monitor quality/timeliness of provision • use service level agreements • consider use of buying consortia |
| Capacity and use of resources including tangible fixed assets | • under-utilised or lack of building/office space • plant and equipment obsolescence impacting on operational performance • mismatch between staff allocations and key objectives • spare capacity not being utilised or turned to account | • agree building and plant inspection programme • agree repair and maintenance programme • agree capital expenditure budgets • undertake efficiency review |
| Security of assets | • loss or damage • theft of assets • infringements of intellectual property rights | • review security arrangements • create asset register and inspection programme • agree facility management arrangements • have safe custody arrangements for title documents and land registration • manage use of patent and intellectual property • review insurance cover |
| Fund-raising | • unsatisfactory returns • reputational risks of campaign or methods used • actions of agents and commercial fund-raisers • compliance with law and regulation | • implement appraisal, budgeting and authorisation procedures • review regulatory compliance • monitor the adequacy of financial returns achieved (benchmarking comparisons)  • stewardship reporting in annual report |
| Employment issues | • employment disputes • health and safety issues • claims for injury, stress, harassment, unfair dismissal • equal opportunity and diversity issues • adequacy of staff training • child protection issues • low morale • abuse of vulnerable beneficiaries | • review recruitment processes • agree reference and qualification checking procedures, job descriptions, contracts of employment, appraisals and feedback procedures • implement job training and development • implement health and safety training and monitoring • be aware of employment law requirements • implement staff vetting and legal requirements (eg DBS checks)  • agree a whistle-blowing policy |
| High staff turnover | • loss of experience or key technical skills • recruitment costs and lead time • training costs • operational impact on staff morale and service delivery | • review interview and assessment processes • agree fair and open competition appointment for key posts • agree job descriptions and performance appraisal and feedback systems • conduct ‘exit’ interviews • review rates of pay, training, working conditions, job satisfaction |
| Volunteers | • lack of competences, training and support • poor service for beneficiaries • inadequate vetting and reference procedures • recruitment and dependency | • review and agree role, competencies • review and agree vetting procedures • review and agree training and supervision procedures • agree development and motivation initiatives |
| Health, safety and environment | • staff injury • product or service liability • ability to operate (see Compliance risks)  • injury to beneficiaries and the public | • comply with law and regulation • train staff and compliance officer • put in place monitoring and reporting procedures |
| Disaster recovery and planning | • computer system failures or loss of data • destruction of property, equipment, records through fire, flood or similar damage | • agree IT recovery plan • implement data back up procedures and security measures • review insurance cover • create disaster recovery plan including alternative accommodation |
| Procedural and systems documentation | • lack of awareness of procedures and policies • actions taken without proper authority | • properly document policies and procedures • audit and review of systems |
| Information technology | • systems fail to meet operational need • failure to innovate or update systems • loss/corruption of data eg donor base • lack of technical support • breach of data protection law | • appraise system needs and options • appraise security and authorisation procedures • implement measures to secure and protect data • agree implementation and development procedures • use service and support contracts • create disaster recovery procedures • consider outsourcing • review insurance cover for any insurable loss |

FINANCIAL RISKS

| Potential risk | Potential impact | Steps to mitigate risk |
| --- | --- | --- |
| Budgetary control and financial reporting | • budget does not match key objectives and priorities • decisions made on inaccurate financial projections or reporting • decisions made based on unreliable costing data or income projections • inability to meet commitments or key objectives • poor credit control • poor cash flow and treasury management • ability to function as going concern | • link budgets to business planning and objectives • monitor and report in a timely and accurate way • use proper costing procedures for product or service delivery • ensure adequate skills base to produce and interpret budgetary and financial reports • agree procedures to review and action budget/cash flow variances and monitor and control costs • regularly review reserves and investments |
| Reserves policies | • lack of funds or liquidity to respond to new needs or requirements • inability to meet commitments or planned objectives • reputational risks if policy cannot be justified | • link reserves policy to business plans, activities and identified financial and operating risk • regularly review reserves policy and reserve levels |
| Cash flow sensitivities | • inability to meet commitments • lack of liquidity to cover variance in costs • impact on operational activities | • ensure adequate cash flow projections (prudence of assumptions)  • identify major sensitivities • ensure adequate information flow from operational managers • monitor arrangements and reporting |
| Dependency on income sources | • cash flow and budget impact of loss of income source | • identify major dependencies • implement adequate reserves policy • consider diversification plans |
| Pricing policy | • reliance on subsidy funding • unplanned loss from pricing errors • cash flow impact on other activities • loss of contracts if uncompetitive • affordability of services to beneficiary class | • ensure accurate costing of services and contracts • compare with other service providers • notify and agree price variations with funders • monitor funder satisfaction • develop pricing policy for activities including terms of settlement and discounts |
| Borrowing | • interest rate movements • ability to meet repayment schedule • security given over assets • regulatory requirements | • appraise future income streams to service the debt • appraise terms (rates available fixed, capped, variable etc)  • appraise return on borrowing • use appropriate professional advice |
| Guarantees to third parties | • call made under guarantee • lack of reserves or liquidity to meet call • consistency with objects and priorities | • review approval and authority procedures • agree procedures to ensure consistency with objects, plans and priorities • ensure financial reporting of contingency and amendment to reserves policy |
| Foreign currency | • currency exchange losses • uncertainty over project costs • cash flow impact on operational activities | • ensure proper cash flow management and reserves policy • use currency matching (cost to charity in home currency)  • consider forward contracts for operational needs (hedging) |
| Pension commitments | • under-funded defined benefit scheme • impact on future cash flows • failure to meet due dates of payment • regulatory action or fines | • use actuarial valuations • review pension scheme arrangements (eg money purchase schemes)  • review procedures for admission to scheme and controls over pension administration |
| Inappropriate or loss-making non-charitable trading activities | • resources withdrawn from key objectives • resources and energy diverted from profitable fund-raising or core activities • regulatory action, and accountability • reputational risk if publicised | • monitor and review business performance and return • ensure adequacy of budgeting and financial reporting within the subsidiary or activity budget • review and agree adequate authorisation procedures for any funding provided by charity (prudence, proper advice, investment criteria)  • report funding and performance as part of charity’s own financial reporting system • appraise viability • consider transfer of undertakings to separate subsidiary |
| Investment policies | • financial loss through inappropriate or speculative investment • unforeseen severe adverse investment conditions • financial loss through lack of investment advice, lack of diversity • cash flow difficulties arising from lack of liquidity | • review and agree investment policy • obtain proper investment advice or management • consider diversity, prudence and liquidity criteria • implement adequate reserves policy • use regular performance monitoring |
| Protection of permanent endowment | • loss of future income stream or capital values • buildings unfit for purpose • income streams inappropriate to meet beneficiary needs | • review and agree investment policy • obtain proper investment advice or management • consider diversity, prudence and liquidity criteria • use regular performance monitoring • ensure maintenance and surveyor inspection of buildings • review insurance needs |
| Compliance with donor imposed restrictions | • funds applied outside restriction • repayment of grant • future relationship with donor and beneficiaries • regulatory action | • implement systems to identify restricted receipts • agree budget control, monitoring and reporting arrangements |
| Fraud or error | • financial loss • reputational risk • loss of staff morale • regulatory action • impact on funding | • review financial control procedures • segregate duties • set authorisation limits • agree whistle-blowing anti fraud policy • review security of assets • identify insurable risks |
| Counter party risk | • financial loss • disruption to activities or operations | • research counter party’s financial sustainability • contractual agreement • consider staged payments • agree performance measures • monitor and review investments • establish monitoring and review arrangements where counter party is the charity’s agent (‘conduit funding’ arrangements |

ENVIRONMENTAL OR EXTERNAL FACTORS

| Potential risk | Potential impact | Steps to mitigate risk |
| --- | --- | --- |
| Public perception | • impact on voluntary income • impact on use of services by beneficiaries • ability to access grants or contract funding | • communicate with supporters and beneficiaries • ensure good quality reporting of the charity’s activities and financial situation • implement public relations training/procedures |
| Adverse publicity | • loss of donor confidence or funding • loss of influence • impact on morale of staff • loss of beneficiary confidence | • implement complaints procedures (both internal and external)  • agree proper review procedures for complaints • agree a crisis management strategy for handling - including consistency of key messages and a nominated spokesperson |
| Relationship with funders | • deterioration in relationship may impact on funding and support available | • ensure regular contact and briefings to major funders • report fully on projects • meet funders’ terms and conditions |
| Demographic consideration | • impact of demographic distribution of donors or beneficiaries • increasing or decreasing beneficiary class • increasing or decreasing donor class | • profile donor base • profile and understand beneficiary needs • use actuarial analysis to establish future funding requirements |
| Government policy | • availability of contract and grant funding • impact of tax regime on voluntary giving • impact of general legislation or regulation on activities undertaken • role of voluntary sector | • monitor proposed legal and regulatory changes • consider membership of appropriate umbrella bodies |

COMPLIANCE RISK (LAWS & REGULATIONS)

| Potential risk | Potential impact | Steps to mitigate risk |
| --- | --- | --- |
| Compliance with legislation and regulations appropriate to the activities, size and structure of the charity | • fines, penalties or censure from licensing or activity regulators • loss of licence to undertake particular activity (see operational risks)  • employee or consumer action for negligence • reputational risks | • identify key legal and regulatory requirements • allocate responsibility for key compliance procedures • put in place compliance monitoring and reporting • prepare for compliance visits • obtain compliance reports from regulators (where appropriate) - auditors and staff to consider and action at appropriate level |
| Regulatory reporting requirements: Financial and other reporting requirements will be dependent on how the charity is constituted and may also vary according to funding arrangements | • regulatory action • reputational risks • impact on funding | • review and agree compliance procedures and allocation of staff responsibilities |
| Taxation | • penalties, interest and ‘back duty’ assessments • loss of income eg failure to utilise gift aid arrangements • loss of mandatory or discretionary rate relief • failure to utilise tax exemptions and reliefs | • review PAYE compliance procedures • review VAT procedures • file timely tax returns • understand exemptions and reliefs available (direct tax and VAT)  • take advice on employment status and contract terms and tax • implement budget and financial reporting identifying trading receipts, and tax recoveries |
| Professional advice | • lack of investment strategy or management • failure to optimise fiscal position • contract risks • failure to address compliance risks | • identify and ensure access to professional advice • identify issues where advice is required • conduct compliance reviews |