

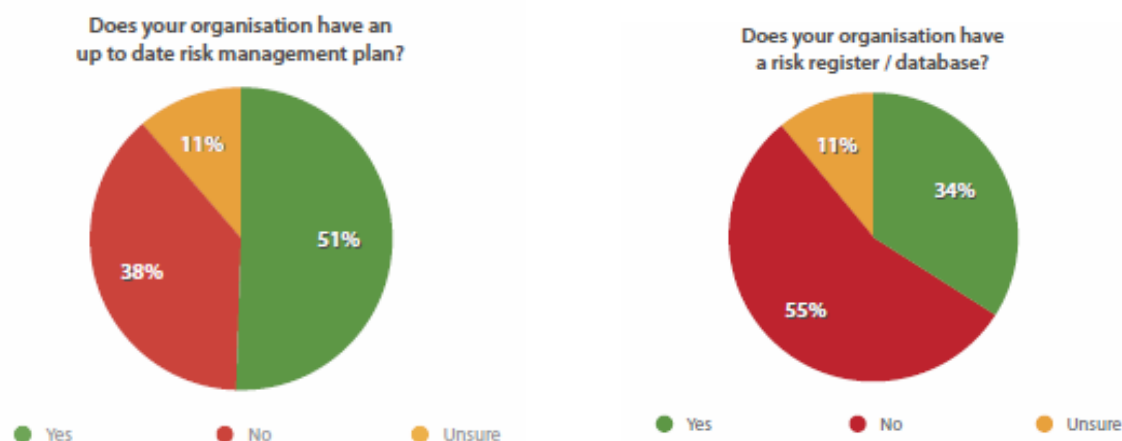
BASIC RISK MANAGEMENT FOR NOT-FOR-PROFITS

This document is designed to make it easy for you to get a very basic, practical risk management strategy in place.

WHERE TO START

Most NFP organisations acknowledge that good risk management practices are important. The problem is that most also believe it is too complex, too time consuming and there are other more important priorities. Others have folders of policies and procedures that sit nicely on the top shelf gathering dust.

The 2010 PPB not-for-profit risk survey revealed that a majority of organisations do not have adequate risk management practices.



This document is designed to try to make it easy for you to get a very basic, practical risk management strategy in place.

WHAT IS A RISK?

We deal with risks every day. For example, getting in the car to drive has risks. Risks are a part of life, and in fact very much part of any organisations activities.

To define risk on a technical level, a risk is “the effect of uncertainty of an object”. Think of it as cause and effect... an event happens (the cause) and the risk is the effect (good or bad) and how likely it will happen.

A risk can be internal (within your control) or external (outside your control). Risk management then, is managing the possibility that something will happen.

WHAT IS THE RISK MANAGEMENT PROCESS?

The 5 Step Process is based on Australian Standards. While you can take this amazing depth and complexity, for most small organisations, keeping it simple is the key.

- STEP 1 - Identify your risks.
- STEP 2 – Analysis your risks
- STEP 3 - Evaluate your risks
- STEP 4 – Treat your risks
- STEP 5 – Monitor and review the risks

STEP 1 - IDENTIFY YOUR RISKS

Identifying risks is usually a simple brainstorming exercise. It is best done by leaders with operational responsibility as they best know the practical aspects of any risk. Getting an external or independent perspective will also ensure that you don't miss critical risks from being too close to the activity to be objective.

The following is a broad guide of internal and external risks to consider.

<u>Financial</u> Accounting Standards Interest rates Taxation & Government Donor health Board Experience / skills		<u>Infrastructure Risks</u> Natural Disasters Pandemic & terrorism Suppliers Communications Legal / regulations	
External Risks		Identify your risk	
		Internal Risks	
<u>Financial</u> Accounting Standards Debt / Credit Expense management Tax & Govt		<u>Infrastructure</u> People – Volunteers & staff Health & Safety Property IT Systems	
<u>Marketplace Risks</u> Economic Environment Opposing Parties Competition Technology / Marketing		<u>Brand & Reputation Risks</u> Community Perception Competitor action Regulatory Major event failure	

STEP 2 – ANALYSE YOUR RISK

Once you have created your list of risks, you need to do a simple exercise of systematically determining how important these risks are. Following is a universal table which helps you to rank the risks based on the likelihood of occurrence and then just how much impact the event would have on your organisation.

	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain	H	H	ER	ER	ER
Likely	M	H	H	ER	ER
Possible	L	M	H	ER	ER
Unlikely	L	L	M	H	ER
Rare	L	L	M	H	H

RISK RATING	
ER = Extreme	Immediate action required to eliminate or reduce risk
H = High	Senior management attention needed
M = Moderate	Action must be taken to eliminate or reduce the risk
L = Low	Managed by routine procedures

STEP 3 - EVALUATE YOUR RISK

Step 3A: Once you have a list of analysed risks, its time to prioritise them. Rank the risks in order of the highest risks to lowest. At this point many organisations get overwhelmed and give up. We recommend that you select the top 6-10 risks to start with. It is better to deal with the most important risks properly first, then move on to the other lower priority risks.

Step 3B: The next practical step is to evaluate your top risks by asking a simple question, “Are we comfortable with the way this risk is being handled?”

Step 3C: It’s now time to complete a simple summary document of your risk management findings. This summary is commonly referred to as a risk register. The following is an example of a risk register.

RISK REGISTER (Example)								
Priority	Risk	Details	Likelihood	Consequence	Risk Rating	Treatment	By whom	By when
1	Damage to reputation	Allegation of impropriety	Possible	Major	ER	Develop HR protocols Appoint PR agency	HR Manager	15-Dec-10
2	Employment issue	Staff member unfair dismissal	Unlikely	Moderate	Moderate	Develop HR protocols	HR Manager	30-Jan-11
3	Major building fire	Fire causing complete loss of building	Unlikely	Major	High	Create continuity plan. Review fire safety procedures	MD	30-Jan-11
4	Loss of major donor	Donor withdraws annual support	Likely	Major	ER	Develop major donor strategy.	MD	15-Dec-11
5	Board change	Key board member retires	Likely	Minor	High	Create board succession plan	Board	20-Mar-11

STEP 4 – TREAT YOUR RISK

There are four things you can do about a risk. The strategies are:

- Avoid the risk. Do something to remove it such as ban the activity.
- Transfer the risk. Make someone else responsible. Perhaps engage a contractor or a third party. Getting appropriate insurance coverage may be a risk transfer strategy.
- Mitigate the risk. Take actions to lessen the impact or chance of the risk occurring. Create risk strategies, plans and policies for risks and adjust behaviours where necessary to reduce the risk.
- Accept the risk. You might calculate the risk and decide that it is worth taking on for yourself.

STEP 5 – MONITOR AND REVIEW YOUR RISKS

Every organisation, big or small, should allocate one or two people to champion and manage the risk management process. They should provide regular reports to the board as well as coordinate the assessment of any new activities.

It is appropriate to conduct a comprehensive review annually and looking at any incident and near miss trends. It is best to schedule in advance.

COMMON NOT-FOR-PROFIT RISKS

Common NFP Risks to consider (in no particular order) are:

- People risks: Including public safety, child safety and youth activities, sexual and physical assaults.
- Events management: Running public access fundraisers have their own risks. Be sure to create a risk plan for each event to understand your risks.
- Property risks: Property damage including fire and theft. Examine your levels of insurances as underinsurance is a major issue. Note that an insurance value is usually quite different to market/sale values.
- Reputation risks: A major way to diminish/destroy the impact of a NFP is by destroying its reputation. Consider your processes of dealing with media and publicity (good or bad).
- Governance risks: There are far too many examples of board meltdowns, moral leadership failure and unaccountable executive decisions. All of these risks can be reduced by strong governance systems. We recommend the CMA 16 essential standards be followed. Please contact us for more information.
- Finance risks: NFPs fundamentally are business organisations. Balancing altruistic and faith ventures with wise management are critical to long term ministry viability.
- Volunteer risks: NFPs are full of volunteers acting on your behalf. Your public liability insurance covers third parties only. You need to be careful as your volunteers may not be considered third parties.
- Workers compensation limits: Fringe benefit payments are typically not included in workers compensation. Take care not to leave yourself short.

General Advice Warning

Information provided in this document is a summary and general in nature only. It does not take into account individual circumstances.

It is a basic guide intended to get you started on risk management and does not ensure compliance to government regulations. Please consult your local risk specialist for assistance specific to your situation.