Risk Management for Charities
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Risk Management for Charities

Charity trustees are responsible for ensuring that a risk management system is put in place in order to protect the charity from any harm that may be caused, by reducing the likelihood of each risk occurring and minimising the impact of each risk where possible. This document should assist charity trustees to identify, evaluate and manage all of the risks within the charity, by setting out:

- What is risk?
- Various risk categories
- Risk management:
  - An overview of a risk management system
  - How to identify, evaluate and manage risk
  - The benefits of managing risk

What is risk?

A risk is an uncertain event which may occur in the future preventing or delaying a charity’s ability to realise and achieve its objectives.

Examples include: the failure of a board of charity trustees in respect of governance obligations; staff unavailability; damage to buildings or work space; inability to raise sufficient income; and failure to comply with health and safety or other legal obligations.

The likelihood of a risk occurring can only be estimated. To estimate risk properly, each risk should be identified, understood and evaluated by the board of charity trustees. More complex organisations may have experience within the organisation or may engage a qualified and experienced individual or firm for this purpose.
## Risk categories

To help identify risks, they should be considered under the following categories, which may have both internal and external elements:

### 1. Governance

Governance risks may include charity trustees not knowing or living up to their responsibilities; high board turnover; conflict on a board; conflicts of interest not properly managed; absence of relevant policies; failure to properly implement agreed policies; and policies not being reviewed.

A significant governance risk may also arise where the charity trustees do not give due consideration to the charity’s legal form and governing document and decide whether they are fit for purpose.

### 2. Strategic

Strategic risks include any risk which may cause a charity to be delayed or prevented from achieving its objectives. Examples include failure to control costs or failure to understand the resources needed for a particular project or particular service that the charity wishes to offer.

### 3. Compliance (legal or regulatory)

Compliance risks may include failure to comply with legal or regulatory requirements, for example: legislation in respect of charity regulation; health and safety; child protection; data protection; employment law; or company law. Such failures may arise due to a lack of resources within the charity to meet the requirements, or due to a lack of knowledge within the charity of the legal or regulatory requirements that the charity is required to comply with.

Failure to have an appropriate level of insurance in place for the charity is also a compliance risk.

### 4. Operational

Operational risks include volunteers or employees being unavailable for duty, or volunteers or employees that are only trained for one role and are unable to cover for another volunteer or employee in the event of an absence. A lack of planning in the event of charity premises being damaged and unusable for a period of time is also an operational risk.
5. Financial

Financial risks include failure to meet financial management and reporting requirements; failure to maintain prudent financial reserves; failure to plan to meet future needs; and failure to properly assess and understand the financial viability of the charity. Misunderstanding funder priorities, poorly articulated funding applications or missed deadlines for funding applications are all potential risks for the charity.

6. Environmental

Environmental or external risks include risks arising from a change in the overall environment in which the charity operates such as a change to Government policy that affects the charity. For example, a charity that is dependent on supported employment schemes could be affected if the Government decided to reduce or eliminate such schemes. Another example of environmental risk could be adverse publicity generated by another organisation resulting in loss of support for the charity.

7. Reputational

Charities in general rely heavily on their reputation. The charity should consider the actual and perceived impact of the decisions it takes, ensuring that all decisions are taken in line with the best interests and charitable purpose of the charity. For example, a charity providing services to children could risk damage to its reputation by accepting a donation from an alcoholic drinks company.

Failure to identify, evaluate and manage all of the risks within the charity can have serious implications for the charity trustees and may adversely affect the reputation of the charity. For example poor financial oversight of the charity’s finances could lead to the misappropriation of funds which, in addition to having serious implications for the charity trustees, would likely cause all stakeholders (including funders and donors), to lose trust and confidence in the charity and the charity sector as a whole.

Risk management

As mentioned at the beginning of this document, charity trustees are responsible for ensuring that a risk management system is put in place in order to protect the charity from any harm that may be caused. A risk management system should reduce the likelihood of each risk occurring and minimise the impact of each risk where possible.
Risk management system

Putting in place a risk management system need not be particularly onerous. For a very small charity, the risk management system can simply be discussions at regular charity trustee meetings, identifying, evaluating and monitoring the risks. For other charities, a risk policy and risk register will assist charity trustees in monitoring and reporting on risk.

Elements of a risk management system include the following:

**Risk Register** - A document (table format is recommended) used to record details of each risk. It should include: the category of risk; a clear description of each risk; the likelihood of occurrence; the potential impact; mitigation measures; and the person(s) responsible for managing each risk. See Other Relevant Documents for a link to our template risk register.


**Monitor and Report** - Risk should be monitored regularly in a structured way.

How this risk management system can be used is outlined in the next section.

How to identify, evaluate and manage risk

In order to identify risks, charity trustees should have an understanding of the charity and the specific roles within the charity. In addition, charity trustees should have an understanding of the external environment the charity operates in.

Charity trustees should meet to discuss and agree these matters and take action on the following:

- **Agree on how to manage risk** – this can be done through discussions at board meetings. For more complex charities, this can be a document setting out procedures for managing risk and risk reporting i.e. a risk policy.

- **Identify the risks** – carry out an internal and external analysis of what risks could affect the charity, using the risk categories set out in this document as a guide.

- **If necessary, depending on the complexity or number of risks identified**, adopt a risk register. See Other Relevant Documents for a link to our template risk register.

- **Evaluate and rate the risks** - what is the likelihood of the risk occurring and what is the potential impact on the charity if the risk materialised?

- **Prioritise the risks** - based on your evaluation of each risk, priority for action should be given to those risks most likely to occur and most likely to have significant impact and serious consequence(s) for the charity.
- Mitigate the risks – where possible charity trustees should identify what action can be taken to mitigate against each risk, for example: Take out appropriate levels of insurance.

- Assess if the risk rating has changed as a result of mitigating actions you have taken and update the risk register as appropriate.

- Monitor the risks and report on their management – risks should be monitored regularly and should be a standing item on the agenda at board meetings. Monitoring and reporting can be done by trustees in a smaller charity. The Executive or a Sub-Committee of the board may do this in a more complex charity.

The benefits of managing risk

Managing risk reduces the likelihood of a risk occurring or mitigates the impact if a risk does occur. This in turn:

- Reduces the possibility of the charity failing to realise and achieve its objectives - for example, the risk of losing valued volunteers or employees due to not supporting them properly.

- Reduces the possibility of reputational damage – for example, a charity which decides to accept funding from a third party and becomes publicly associated with that party can be damaged if there is a public perception that the association is inappropriate.

- Improves service delivery – for example, service delivery can be impaired if the risk of loss of funding is not recognised and alternative sources of funding identified.

- Improves decision making – for example, charity trustees can make more informed decisions about matters affecting the charity if risk is managed properly.

- Highlights opportunities and potential benefits– for example, launching a new service can be a risk for any charity but it is a risk that could serve your beneficiaries well if the risk is calculated and managed properly.

Other relevant documents

This document should be read in conjunction with our ‘Template Risk Register’