

Potential risks associated with charities and not-for-profit organisations – Assessment sheet

Potential risk	Categorisation	Potential Risk Score High/Medium/Low		Potential Risk Impact Description	Controls and Assurance – what needs to be done to minimise the risk	Owner	Target Date for Action
		Probability	Impact				
The charity lacks direction, strategy and forward planning	Governance			<ul style="list-style-type: none"> • 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 or reputation 	<ul style="list-style-type: none"> • Creation of a strategic plan which sets out the key aims, objectives and policies • Creation of financial plans and budgets • Use of job plans and targets. • Monitoring of financial and operational performance • Feedback from beneficiaries and funders 		
Board of Trustees dominated by one or two individuals, or by connected individuals.	Governance			<ul style="list-style-type: none"> • Trustee body cannot operate effectively as strategic body • Decisions made outside of trustee body • Conflicts of interest. • Pursuit of personal agenda. • Arbitrary overriding of control 	<ul style="list-style-type: none"> • Consider the structure of the Board and their independence • Mechanisms agreed to deal with potential conflicts of interest • Procedural framework for meetings and recording decisions 		
Trustees are benefiting from charity (e.g. remuneration).	Governance			<ul style="list-style-type: none"> • Reputation, moral and ethos • Impact on overall control environment • Conflicts of interest • Regulatory action 	<ul style="list-style-type: none"> • Ensure legal authority for payment or benefit • Terms and procedures to authorise/approve expenses and payments • Procedures and methods to establish fair remuneration conducted separately from “interested” trustee, e.g. remuneration committee/benchmarking exercise. 		

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Conflicts of interest	Governance			<ul style="list-style-type: none"> Charity unable to pursue its own interests and agenda Decisions may not be based on relevant considerations Impact on reputation 	<ul style="list-style-type: none"> Understanding of trust law Protocol for disclosure of potential conflicts of interest Procedures for standing down on certain decisions 		
Organisational structure	Governance			<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Organisation chart and clear understanding of roles and duties Delegation and monitoring consistent with good practice and constitutional or legal requirements Review of structure and constitutional change 		
Activities potentially outside objects, powers or terms of gift (restricted funds)	Governance			<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> Protocol for reviewing new projects to ensure consistency with objects, powers and terms of funding Financial systems to identify restricted funds and their application 		

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Reporting to trustees (accuracy, timeliness and relevance).	Governance			<ul style="list-style-type: none"> Inadequate information resulting in poor quality decision-making Failure of Board to fulfil its control functions. Board becomes remote and ill-informed. 	<ul style="list-style-type: none"> Proper strategic planning, objective setting and budgeting processes. Timely and accurate project reporting. Timely and accurate financial reporting. Proper project assessment and authorisation procedures. Regular contact between trustees and their managers. 		
Project or service development	Operational			<ul style="list-style-type: none"> Compatibility with objects, plans and priorities Funding and financial viability Project viability Skills availability 	<ul style="list-style-type: none"> Project appraisal and costing procedures. Authorisation procedures. Monitoring and reporting procedures. 		
Suppliers, dependency, bargaining power	Operational			<ul style="list-style-type: none"> Dependency on key supplier Lack of supplier to meet key operational objectives. Non-competitive pricing/ quotes. Insufficient buying power. 	<ul style="list-style-type: none"> Use of competitive tendering for larger contacts. Procedures for obtaining quotations. Authorised suppliers' listing. Monitoring of quality/timeliness of provision. Use of service level agreements. Use of buying consortia. 		

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Security of assets	Operational			<ul style="list-style-type: none"> Loss or damage Theft of assets. Infringements of intellectual property rights. I	<ul style="list-style-type: none"> Review of security. Asset register and inspection programme. Facility management arrangements. Safe custody arrangements for title documents. Management of patent and intellectual property. Insurance reviews. 		
Volunteers	Operational			<ul style="list-style-type: none"> Competencies and training Vetting and reference procedures. Recruitment and dependency. 	<ul style="list-style-type: none"> Assessment of role, competencies. Vetting procedures. Training and supervision procedures. Development and motivation. 		
Disaster recovery and planning	Operational			<ul style="list-style-type: none"> Computer system failures or loss of data Destruction of property, equipment, records, through fire, flood or similar damage. 	<ul style="list-style-type: none"> Recovery plan. Data back up procedures and precautions. Insurance cover. 		
Information technology	Operational			<ul style="list-style-type: none"> Systems fail to meet operational need. Failure to innovate or update systems. Loss/corruption of data, e.g. donor base. Lack of technical support. 	<ul style="list-style-type: none"> Appraisal of system needs and options. Security and authorisation procedures. Implementation and development procedures. Use of service and support contracts. Disaster recovery procedures. Outsourcing. Insurable loss. 		

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Budgetary control and financial reporting	Financial risk			<ul style="list-style-type: none"> Budget does not match key objectives and priorities. Decisions made on inaccurate financial projections or reporting. Decisions made based on unreliable costing data. 	<ul style="list-style-type: none"> Budgets linked to business planning and objectives. Timely and accurate monitoring and reporting. Proper costing procedures for product or service delivery. Adequate skills base to produce and interpret budgetary and financial reporting. Procedures to review and action budget/cash flow variances. 		
Reserves policies	Financial risk			<ul style="list-style-type: none"> Lack of liquidity to respond to new needs or requirements Inability to meet commitments or planned objectives. 	<ul style="list-style-type: none"> Reserves policy linked to business plans, activities and identified financial and operating risk. Regular review of policy. 		
Cash flows sensitivity	Financial risk			<ul style="list-style-type: none"> Inability to meet commitments Lack of liquidity to cover variance. Impact on operational activities. 	<ul style="list-style-type: none"> Adequate cash flow projections (prudence of assumptions). Identification of major sensitivities. 		
Dependency on income sources	Financial risk			<ul style="list-style-type: none"> Cash flow and budget impact of loss of income source. 	<ul style="list-style-type: none"> Identification of major dependencies. Adequate reserves policy. Diversification plans. 		

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Inappropriate or loss-making non-charitable trading activities	Financial risk			<ul style="list-style-type: none"> Resources withdrawn from key objectives Resources and energy diverted from profitable fund-raising or core activities. Regulatory action and accountability. Reputational risk if publicised. 	<ul style="list-style-type: none"> Monitoring and review of business performance and return. Adequacy of budgeting and financial reporting within the subsidiary or activity budget. Adequate authorisation procedures for any funding provided by charity (prudence, proper advice, investment criteria). Reporting funding and performance as part of charity's own financial reporting. Viability appraisal. 		
Investment policies	Financial risk			<ul style="list-style-type: none"> Financial loss through inappropriate or speculative investment Financial loss through lack of investment advice, lack of diversity. Cash flow difficulties arising from lack of liquidity. 	<ul style="list-style-type: none"> Investment policy. Proper investment advice or management. Diversity, prudence and liquidity criteria. Adequate reserves policy. Regular performance monitoring. 		
Fraud or error	Financial risk			<ul style="list-style-type: none"> Financial loss Reputational risk. Regulatory action. Impact on funding. 	<ul style="list-style-type: none"> Financial control procedures. Segregation of duties. Authorisation limits. Security of assets. Insurable risks. Further advice is available in our guidance CCB. 		

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Public perception	Environmental/ external factors			<ul style="list-style-type: none"> Impact on voluntary income Impact on use of services by beneficiaries. Ability to access grants or contract funding. 	<ul style="list-style-type: none"> Communication with supporters and beneficiaries. Quality financial, annual report and review reporting. PR training/procedures. 		
Demographic consideration	Environmental/ external factors			<ul style="list-style-type: none"> Impact of demographic distribution of donors to beneficiaries Increasing or decreasing beneficiary class. Increasing or decreasing donor class. 	<ul style="list-style-type: none"> Profiling of donor base. Profiling and understanding of beneficiary needs. Use of actuarial analysis to establish future funding requirements. 		
Government Policy	Environmental/ external factors			<ul style="list-style-type: none"> Availability of contract grant funding Impact of tax regime on voluntary giving. Impact of general legislation or regulation on activities undertaken. Role of voluntary sector. 	<ul style="list-style-type: none"> Monitoring of proposed legal and regulatory changes. 		
<p>Compliance with legislation and regulations</p> <p>Consideration of law and regulations needs to be specific to each individual charity, as risk areas will be dependent on activities undertaken. The following examples should not therefore be used as a checklist:</p> <ul style="list-style-type: none"> Charity law. Own constitution Trustees Act 	Compliance risk (law and regulation)			<ul style="list-style-type: none"> Fines, penalties or censure from licensing or activity regulators Loss of licence to undertake particular activity (<i>link to operational risks</i>) Employee or consumer action for negligence Reputational risks 	<ul style="list-style-type: none"> Identify key legal and regulatory requirements. Allocate responsibility for key compliance procedures. Compliance monitoring and reporting. Compliance reports from Regulators, auditors and staff considered and actioned at appropriate level. 		

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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.				<ul style="list-style-type: none"> Regulatory action Reputational risks Impact on funding 	<ul style="list-style-type: none"> Compliance procedures and allocation of staff responsibilities. 		
Taxation	Compliance risk (law and regulation)			<ul style="list-style-type: none"> Penalties, interest and “back duty” assessments Loss of income, e.g. failure to utilise gift aid arrangements Loss of mandatory or discretionary rate relief Failure to utilise tax exemptions and relief 	<ul style="list-style-type: none"> VAT review procedures. Understanding or exemptions and reliefs available (direct tax and VAT). Advice on employment status and contract terms. Budget and financial reporting, identifying trading receipts and tax recoveries. 		
Professional advice	Compliance risk (law and regulation)			<ul style="list-style-type: none"> Lack of investment strategy or management Failure to optimise fiscal position. Contract risks. Failure to address compliance risks. 	<ul style="list-style-type: none"> Identification and access to professional advice. Identification of issues where advice is required. Compliance reviews. 		