

## risk management

In October 2000 the publication of the Statement of Recommended Practice Accounting and Reporting by Charities (SORP) required charities for the first time to formally consider and document their risks, and arrangements for mitigating them, as part of their corporate governance. The 2002 charities risk survey *Managing Risk – Targeting Governance* by PKF accountants and the Charity Finance Directors' Group was published in response to this, with the aim of finding out what was happening, the approaches being adopted and the specific areas of concern. It proved to be the first in a series of annual surveys tracking the, then, relatively new discipline of risk management.

When the survey was repeated in 2003, it was clear that the large majority of charities felt they had a good understanding of risk management requirements in relation to SORP 2000, as over the past four years there has been a steady increase in the number of charities implementing risk management. In 2002, only 46 per cent of respondents had implemented formal risk management procedures – a figure which soon grew to 94 per cent in 2003 and 95 per cent in 2004. But while risk management is now firmly in place for the majority of charities, in 2005 seven per cent of charities are still failing to implement it – two-thirds of which have an income of over £1 million.

With risk management firmly established, this year's survey explored how often charities were reviewing their risk assessment. Risk profiles are constantly changing due to both external and internal factors, therefore regular board-level reviews of policies are key to making risk management work. Although 2005 results suggest 80 per cent of respondents review their risk assessment every six to 12 months, only 24 per cent review them more frequently. In 2004, 89 per cent had been reviewed in the last year and 60 per cent in the last six months, which was considerably lower than in 2003. This trend suggests that many charities are becoming complacent in reviewing the risks facing their organisation.

The willingness to take on risk has increased, particularly among managers,

The fourth annual charity survey *Managing Risk – Targeting Governance* may show that charities' risk management procedures have improved over recent years, but do they go far enough, asks PKF's Charles Cox

77 per cent of whom regarded themselves as 'average or above' risk takers in 2002, rising to 89 per cent in 2003 and keeping steady throughout 2004 and 2005. This year's survey shows a relatively high degree of consistency between 2003 and 2005, with the level of risk being taken remaining the same for both trustees and management in two-thirds of cases.

The major risks facing charities have remained largely consistent over the years. In 2002, concern over resources dominated, with 68 per cent rating it as one of their top five risks and 36 per cent rating it as their biggest risk. By 2003, 80

relies heavily on donations from the public for income, it could be stated that control over levels of income is solely held by existing or potential donors. Clearly their decisions could have a significant impact, but although the level of income from this source may be outside the charity's control, the ability to manage the risk is not. There are many measures that could be adopted, but broadly these could encompass encouraging donations from new and existing donors, and actively pursuing income from new sources.

On the whole risk management is still being used by most charities, most of which feel it is beneficial. A small minority may still be holding out against it, but it is clear that the SORP 2000 requirements have been successful in increasing awareness of risks.

Still, there is a way to go before risk management becomes embedded in the running of all charities. For many, there has been little progress in this area over the last two years. Too many review risks only annually, or

even less frequently. In some cases this may be the only review that is given – so new issues that emerge have a potential twelve-month delay before being dealt with. In other cases, the onus is on management to flag up issues in between the formal reviews. This approach may work for detailed operational matters, but can do little to identify and deal with major new threats. Indeed, some charities seem to have developed SORP 2000 compliance systems rather than true risk management. Such a stance undermines governance and means that the investment made does not yield its full benefit.

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per cent of respondents cited loss of income as one of their top five risks, with 41 per cent of respondents identifying it as their major risk. This was continued into 2004 when it was again cited as the most widely arising risk at 80 per cent. In 2005 respondents were asked for the five most significant risks they were currently facing and how satisfied they were that they were under control. Over ten per cent of respondents felt that they had little or no control over at least one of their most significant risks.

Although external factors may well have a significant bearing on the level of control a charity feels it has over certain risks, this may be more a perception than a reality. Where, for example, a charity