NOT FOR PROFIT WHAT ARE MY RISKS?

A Resource to Help Not for Profits Identify Risks and Consider Potential Mitigation Strategies

All Not for Profit or community organisations are exposed to risks in the conduct of their activities. By taking and managing risks, the members of an organisation are able to deliver on their objectives and to maintain and/or grow the value of the enterprise to its stakeholders.

Your Board and/or executive team are responsible to assess the potential risks that the organisation is likely to face and to develop plans to manage those risks.

RISK ASSESSMENT

Every organisation is different and faces its own unique circumstances and stakeholders. Typically the risk assessment process identifies, analyses and evaluates specific risks:

- **What are the sources and/or causes of a particular risk?**
- **How could it impact us and other stakeholders such as clients, employees, volunteers, funding and regulatory bodies?**
- **What is the range of potential consequences and how could they occur?**
- **What is the likelihood of a risk occurring?**
- **Are controls in place currently to eliminate or reduce the likelihood and/or the consequences?**
- **What additional actions could we take to eliminate or mitigate the potential risk?**

Creating a Risk Register

A list of risks should be created and refined over time. They should also be considered and prioritised based on their likelihood and the severity of the impact that a risk could have on the organisation, along with any actions which you may be able to take to reduce the likelihood of a risk or its impact.

Typically a register of your key risks can be developed through a range of activities including:

- Brainstorming sessions and scenario planning;
- Interviews with staff and other key stakeholders;
- SWOT analysis;
- Review of historical data and experience;
- Benchmarking against similar organisations;
- Consulting a risk management professional.

Once consequence and likelihood values have been determined for a particular risk or activity, a risk matrix can be developed to enable prioritisation based on the intersection of the two values:

		Consequences				
		Insignificant	Minor	Moderate	Major	Severe
Likelihood	Rare	Low	Low	Low	Medium	High
	Unlikely	Low	Low	Medium	Medium	High
	Possible	Low	Medium	Medium	High	High
	Likely	Low	Medium	Medium	High	Extreme
	Almost Certain	Medium	Medium	High	Extreme	Extreme

With a risk matrix in place the organisation can then plan and prioritise risk treatment activities, as well as the frequency of monitoring and reporting:

Low	Accept the risk, routine management, lower priority remediation activities
Medium	Planned risk treatment within budgeted resources and capital, quarterly Board reporting
High	Specific responsibility and risk treatment within budgeted resources and capital, monthly Board reporting
Extreme	Specific allocation of additional resources, weekly senior management review and Board reporting

RISK TREATMENT

The risk treatment process involves working through options to treat risks that you have deemed unacceptable to the organisation and then preparing and implementing action plans. Depending on the type and nature of the risk, options could include:

- Avoiding the risk by deciding not to start or continue with the activity or processes that give rise to the risk.
- Changing the likelihood of the risk occcuring and/or the consequences that the risk will have on the organisation through isolating, substituting or controling risk factors, redesigning existing controls or introduction of new controls.
- Sharing or transferring the risk to another party or parties (outsourcing an activity, changing contractual conditions and/or using insurance as a means of risk financing).
- Accepting part or all of the risk by informed decision that the rating is at an acceptable level within the resources of the organisation.
- Monitor, communicate and review the effectiveness of the decisions and actions.

POTENTIAL RISKS / SOURCES OF RISK

To assist in the risk assessment process this NFP resource suggests a range of potential risks that an organisation may consider. It is not exhaustive nor specific to an organisation. We have focused on the core operational risks that a Not for Profit could consider and many that typically have a solution through the transfer of risk through insurance.

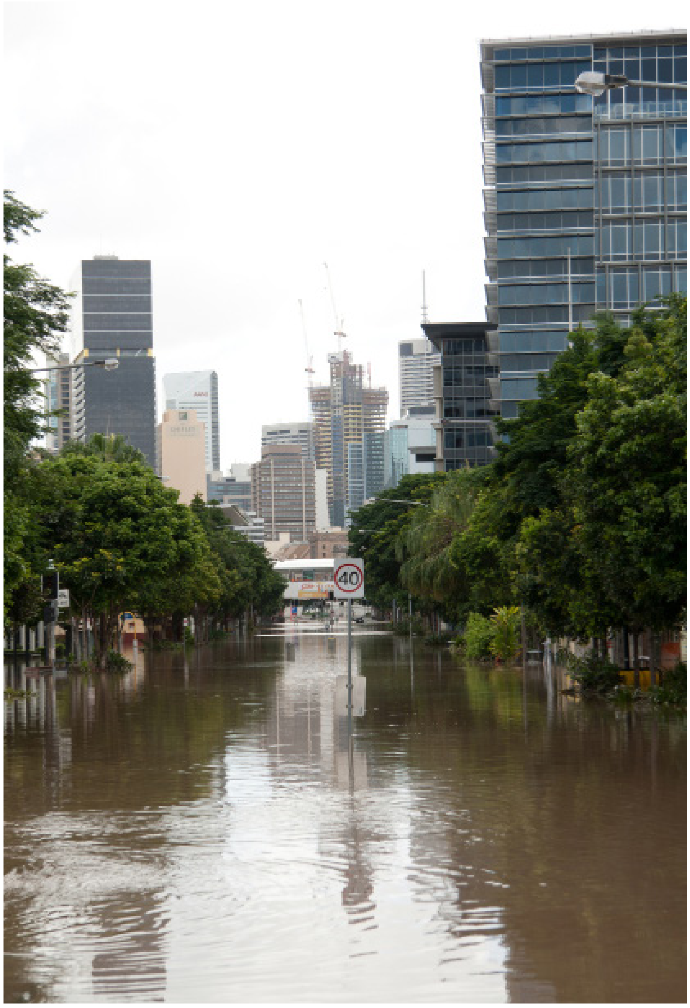
Apart from the obvious physical risks such as fire or burglary, injury to people etc, a detailed risk assessment needs to also consider the risks associated with changes in funding, regulatory oversight, declining volunteers or clients.

It may help to create categories of risk to group similar risks together for evaluation in separate risk matrices.

Asset Risks

Loss or damage caused by:

- Fire, explosion, collapse or other man made cause (accidental means, process faults, acts of arson, sabotage, extortion or terrorism, vehicle or aircraft impact, industrial accident, burglary, theft, malicious damage etc)
- Weather events:
  - Storms, lightning, cyclone, or other high winds, tidal wave or tsunami;
  - Flood or inundation (riverine, coastal, overflow or escape of water storage and/or other flash flooding);
  - Bush fire;
  - Earthquake, volcanic activity;
  - Avalanche, landslip, sinkhole or other subsidence;
  - Drought, changes in temperature or climate;
- Diseases, vermin, epidemics, pandemics.
- Fraud, embezzlement / misappropriation of funds, tangible or intellectual property;
- Loss / damage to raw materials, stock or other key assets whilst being transported;
- Contingent risks which arise from:
  - Similar loss or damage caused to key customers or component businesses in any supply chain of the organisation.



  - Inability to access your assets or to provide services due to access restrictions;
  - Loss of clients or customers due to perceptions of hazards in an area.

Safety, Health and Environment / Sustainability Risks

- Failure of health and safety systems to prevent serious injury or death to employees, volunteers, contractors or other third parties including:
  - Physical or mechanical hazards, manual handling, confined spaces etc;
  - Biological or chemical (bacterial, virus, fungus);
  - Psychological / social (stress, bullying, harassment, intimidation, discrimination, burnout etc);
  - Assault or kidnap.
- Accidental or deliberate environmental emissions and/or contamination of air, land or water including noise, temperature and radiation);

The information provided in this Not for Profit Resource is general in nature and needs to be considered against your organisations own risk profile and particular circumstances. For more specific advice you should contact your broker or Community Underwriting.

- Responsibility or sustainability, e.g.:
  - Use of water, land, energy, packaging etc;
  - Human rights, treatment of employees;
  - Environment impact, sustainable development etc.

Technology Risks

- Unpredictable failure of IT / communication systems, safety devices, power or communication systems;
- Breach of security systems from internal and external sources (virus and system hackers, denial of service, phishing, identity theft, spam etc);
- Unauthorised, fraudulent or inadvertent access or release of customer or business information:
  - From within the organisation;
  - Stored outside the organisation (cloud computing / remote storage);
  - From mobile devices;
- Breach of copyright / piracy of software.

Human Capital Risks

- Inadequate training, supervision, monitoring, coaching and/or guidance of employees;
- Industrial action and disputes, absenteeism;
- Lack of diversity (gender, race, age, ability);
- Employee recruitment, training, retention and dismissal procedures;
- Loss / defection of key staff to competitors or catastrophe (e.g. multiple staff numbers impacted during travel, conference or act of terrorism);
- Lack of or inadequate succession planning.

Product / Service Risks

- Misrepresentation or misleading information, incorrect or inadequate labelling;
- Error or ommission in design / quality / reliability / efficacy of products, services or advice provided to clients.

Business Risks

- Disregard or non compliance with established procedures and controls / inability of controls to capture errors or illegal acts;
- Delays in or loss of supply of raw materials;
- Failure / ineffectiveness of a joint venture or alliance;
- Adequacy of business continuity / disaster recovery planning (including events which occur to customers or along the supply chain);
- Adequacy / efficacy of the organisation's insurance protection (and/or others who may take out insurance on the organisations behalf such as suppliers, principals or contractors);
- Maintenance and efficient operation of facilities and equipment (including motor vehicles);
- Loss of business to competitor organisations;
- Ethics and probity, adequate levels of corporate governance;
- Potential for change in standards, codes of conduct, licensing or other regulatory frameworks.

Regulatory / Legal Risks

- Contractual, assumed or implied obligations to / from customers, suppliers, service providers, subcontractors, lessees / lessors, competitors or government institutions;
- Legislative compliance (ACNC, Corporations, Occupational Health and Safety, Trade Practices, Sale of Goods, Environmental, Hazard Control, Equal Opportunity, Provision of Credit, Privacy, Anti Money Laundering etc.);
- Moral and legal obligations for death, injury or sickness to directors, employees and volunteers;
- Moral and legal obligations for third party injury or damage to third party property;
- Ineffective compliance activities / regimes leading to loss of key operating licenses / approvals;
- Provision of advice to third parties and /or reliance on design work;
- Defamation, libel or slander;
- Conflicts of interest at operational, executive & board levels.