

## **It's risky to ignore Risk Management!**

**This document will provide you with a brief overview of risk management. Answers are quoted from the sites cited in each section. Click on these links to take you to sites that can provide you with further information...and further links for your use.**

### **What is risk?**

Risk is the likelihood that an event will occur that will cause an undesirable effect.

<https://openroadalliance.org/resource/risk-management-a-primer/>

These events can occur anywhere, anytime. They may be predictable or not, controllable or not, and caused by internal or external variables. Risk is a spectrum, and for this reason, identical events may be deemed more or less risky based on the eye of the beholder. In short, risk is relative.

[https://ora.nyc3.digitaloceanspaces.com/wp-content/uploads/2020/07/31003037/The\\_Risk\\_Toolkit\\_2017.pdf](https://ora.nyc3.digitaloceanspaces.com/wp-content/uploads/2020/07/31003037/The_Risk_Toolkit_2017.pdf)

### **What is risk management?**

The Alliance for Nonprofit Management defines risk management as, “[...] a discipline for dealing with the possibility that some future event will cause harm. It provides strategies, techniques, and an approach to recognizing and confronting any threat faced by an organization in fulfilling its mission.”

It's a defined, routine commitment to gather, evaluate and respond to threats and opportunities.

<https://nonprofithub.org/resources/a-nonprofits-guide-to-risk-management/>

### **Why do we need this?**

Nonprofit organizations [like CFUW, councils and clubs, whether incorporated or not] face unique risk management challenges. They are often held to the same standards as for-profit organizations but do not have the same resources and knowledge to understand their risks and how to mitigate them. Legal and financial requirements may determine some of the risks your organization faces. For example, you must be compliant with tax reporting regulations [club or other sister not for profits such as your clubhouse or scholarship fund]. If you are not, there may be financial and legal repercussions. Heightened public scrutiny on nonprofit organizations has also created a new risk for nonprofit organizations: reputational risk. Controversial actions or decisions

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can create bad publicity and alienate supporters, effectively preventing nonprofits from receiving the funding or volunteer base needed to achieve goals.

<https://thephilanthropist.ca/2012/05/nonprofit-risk-management/>

**So you've convinced us. Now what?**

### **The Plan**

#### **Who?**

While risk management must start at the leadership level, it cannot be managed without the input of people from all areas of your organization. A successful risk management culture invites and welcomes involvement from people across all levels of the organization...each bring a unique knowledge and understanding of the type of risks they face on a day-to-day basis. Understanding those risks and working together to mitigate them is part of your nonprofit's due diligence and responsibility to all parties involved in your organization.

<https://thephilanthropist.ca/2012/05/nonprofit-risk-management/>

### **The Process**

Risk management is not a task to be completed and shelved. It is a process that, once understood, should be integrated into all aspects of your organization's management. Risk management is the ongoing process of:

- identifying and prioritizing risks;
- developing a written action plan for each significant risk;
- sharing the plan with staff and providing training if necessary; and,
- monitoring and updating the plan where necessary.

<http://sectorsource.ca/managing-organization/risk-management/risk-management-basics>

#### **Identify:**

Each club is unique and must work to identify its own risks. Reputational risk is perhaps the most difficult to mitigate should an event occur. It is very hard to rebuild your reputation once it has been tarnished or destroyed.

Policies and procedures can be put in place to address risks such as publicity and fundraising. These are living documents and need to be reviewed on a regular basis to ensure that current risks are dealt with.

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CFUW has two policies for your use, CFUW Respectful Treatment Policy and CFUW Code of Ethical Behavior. <http://cfuwadmin.org/governance/policy-and-procedure/>

CFUW also has strict guidelines as to who may advocate at different levels of government. All advocacy must adhere to adopted CFUW, OC and club advocacy policies. Care must be taken that only designated persons speak on behalf of your club.

From The Chartered Professional Accountants Canada:

- **Compliance risk** — the risk of fines and other regulatory penalties for such offenses as failure to remit payroll deductions, violation of privacy laws, etc. Also restrictions on the use of funds from donors and funding agencies.
- **External risk** — the risk of becoming irrelevant, losing the support of the public and funding sources, and failing to respond to economic, demographic and other trends.
- **Financial risk** — the risk of fraud, financial failure and decisions based on inadequate or inaccurate information.
- **Governance risk** — the risk of ineffective oversight and poor decision-making.
- **Information Technology risk** — the risk that the information technologies used in the organization may not provide dependable service and accurate, secure information that is available when needed.
- **Operational or Program risk** — the risk of poor service delivery, day-to-day crises, and misuse or neglect of human capital and other resources.
- **Reputation risk** — the risk of losing goodwill, status in the community, and the ability to raise funds and appeal to prospective volunteers.
- **Strategic risk** — the risk of inappropriate or unrealistic programs and initiatives, and failure to keep the organization strong and relevant

<file:///C:/Users/Owner/AppData/Local/Temp/20-Questions-NFP-Directors-Should-Ask-About-Risk-2009.pdf>

Carters, a leading legal firm in the area of not for profit law, has a comprehensive checklist, you may find useful, that is found at:

<https://www.carters.ca/pub/checklst/NFP-Checklist.pdf>

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It may look daunting, but the list is easily gone through. Each club should determine which are applicable to them.

### **Evaluate:**

1. What is the likelihood that the risk will happen?
2. What would the impact be on the organization if the risk occurred?

### **Scores for Likelihoods:**

Score 1 Rare—unlikely to happen, may happen only under special circumstances.

Score 2 Unlikely—don't expect it will happen, but there is some possibility of it occurring.

Score 3 Possible—likely to occur some of the time, but not frequently.

Score 4 Likely—likely to occur, happens more often than not.

Score 5 Certain—occurs in the majority of cases.

### **Scores for Impact on the Organization**

Score 1 Insignificant impact—little or no impact on the organization's operations or reputation. Complaints are unlikely, and there is only a remote possibility of litigation.

Score 2 Minor impact—potential for slight impact on the organization's operations or reputation. Complaints and litigation may be possible.

Score 3 Moderate impact—could lead to moderate disruption of operations or moderate negative publicity. Complaints and litigation are probable.

Score 4 Significant impact—operations would be disrupted, and adverse publicity would be certain. Formal complaints and litigation would be almost certain.

Score 5 Major impact—interrupts operations for a lengthy period and generates major negative publicity. Major litigation would be likely and senior management and/or resignations would be anticipated. This category may also reduce confidence in the organization's beneficiaries.

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**Now you have the proper information to be able to calculate the initial risk score.**

Multiply the likelihood score by the impact score.

For example, if you assigned a risk with a likelihood of 4 and an impact of 3, the initial risk score for that risk would be 12.

The next step is to assign an action level according to the following definitions:

Levels 1–8 Low risk. Accept the risk and manage it at this level.

Levels 9–16 Medium risk. Manage the risk with the goal of taking action to reclassify it to a low risk.

Levels 17-25 High risk. Alert the rest of the board to this risk and discuss options for mitigating it.

### **Step #3: Prioritize the Risks**

Don't expect to manage every risk. This step, prioritizing risks, will show you what to focus on most heavily and to establish important priorities.

Board discussion on this step will focus on what steps they're willing to take to mitigate risk versus accepting the risk on its face.

### **Step #4: Determine the Appetite for Risk**

It helps to take a hard look at the top-10 risks and determine the board's appetite for assuming risks. The willingness to accept risk may increase if the board can find a way to mitigate it, which is called "[residual risk](#)."

### **Step #5: Reduce and Control the Risks**

Make a final determination as to whether risks are acceptable, too high or too low. The board may decide not to take action on risks that fall in the acceptable level. Board directors should be taking a more in-depth look at risks that fall into the high-risk category and making decisions about how to further reduce the risk or stopping the activities that lead to the risk.

### **Step #6: Give Assurance**

Boards are responsible for oversight of the operations. This step requires board directors to ensure that the risk controls are performing as they expect them to. Board directors may ask internal or external auditors to provide assurance that internal controls are in place and working.

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### **Step #7: Monitor and Review Risks**

The risk assessment is a valuable tool. Boards need to be aware that circumstances around risk may change continually. Risks come and go. The impact of risks can change as other circumstances change. It's best for boards to implement some plan for monitoring and reviewing risks on a regular basis.

Some boards find it helpful to select one risk to add to their agenda at each meeting. This provides time to discuss and review each risk on an ongoing basis. Boards should look for assurance that nothing has changed, and that the proper controls remain in place

<https://www.boardeffect.com/blog/risk-assessment-template-nonprofit-boards/>