Charity trustees and risk management

planning for the unforeseen

Feature report by

Third Sector *insight*

In partnership with

Ecclesiastical

The responsibilities involved in becoming a trustee

Today's charity leaders have a lot to contend with. Aside from the challenges associated with delivering their objectives, trustees and senior managers must keep apace with a multitude of developments within technology, local environments and the political, financial and legal spheres – all of which bring their own set of risks and opportunities.

The voluntary nature of trusteeship is one of the key principles of the charity sector. But trustees are increasingly expected to adopt a 'professional' approach and to be aware of the legal responsibilities of their role.

The Charity Commission wants to attract a diverse group of people to become trustees but despite these new trustees increasing the skills and experience base on boards, they may have little or no previous experience of the demands of trusteeship.

Third Sector Insight conducted a survey, in partnership with insurance provider Ecclesiastical to get a clearer picture of how charities are tackling these issues. The results revealed that despite being aware of their responsibility for risk management, few trustees have any specific risk management training. More alarmingly, almost a third of charities that took part said they have no crisis management plan in place.

The high-profile collapse of Kids Company last summer demonstrated the worst case scenario of what can happen if a proper risk management policy is not adopted: the charity closed and the support it provided was withdrawn. The final report of the Public Administration and Constitutional Affairs Committee on the issue, published in February this year, concluded the ultimate responsibility for Kids Company's demise lay with the charity's "negligent" trustees.

This report offers insight into the responsibilities involved in becoming a trustee, addressing some of the risks charities face and what charities need to do to ensure their trustees are best equipped to manage a crisis.

"Trustees are ultimately responsible for everything a charity does and can be held legally accountable for the decisions they make"

What is a trustee responsible for?

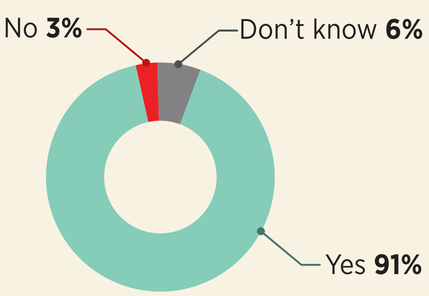
Becoming a trustee can be highly rewarding but with rewards come responsibilities. Trustees are ultimately responsible for everything a charity does and can be held legally accountable for the decisions they make. So, their involvement in the risk management process is essential.

The Charity Commission outlines a trustees' six main duties as:

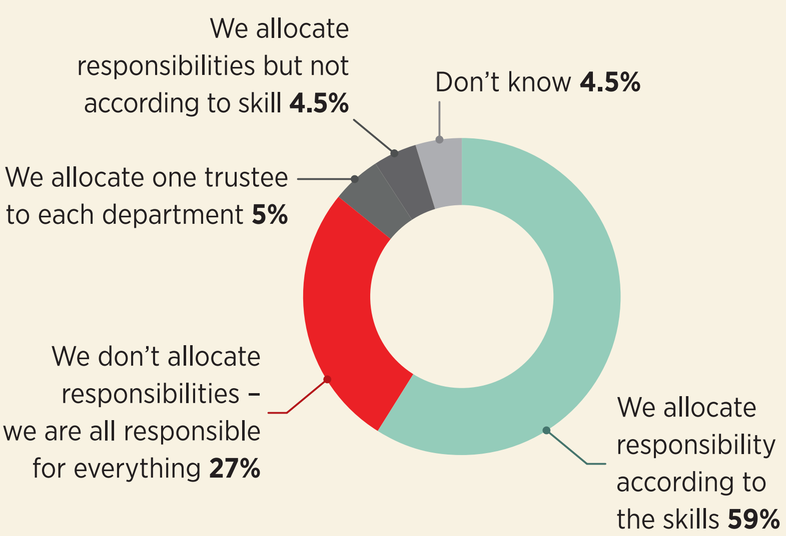
1. Ensuring your charity is carrying out its purposes for the public benefit
2. Complying with your charity's governing document and the law
3. Acting in your charity's best interests
4. Managing your charity's resources responsibly
5. Acting with reasonable care and skill
6. Ensuring your charity is accountable

The results from the Third Sector Insight survey showed the vast proportion **(91%)** of charities questioned said their trustees are aware of their responsibility for risk. It also indicated, that as a trustee, your areas of experience and expertise are likely to influence what specific duties you are given – over half **(59%)** of participants in the survey agreed they allocate responsibility according to skills. By allocating risk-management responsibilities to an individual in each department, the charity can benefit from each person's specialist knowledge.

Are your trustees aware that they are responsible for risk?



How do you allocate responsibilities among your trustees?



What is risk management?

Put simply, risk management is the process of identifying and assessing risks and deciding how to deal with them. It may involve an element of responsible risk taking and should be central to how trustees make decisions.

By law, non-company charities with incomes of £500,000 or more (and charities with incomes above £250,000 plus assets worth more than £3.26 million) must include a risk management statement in their trustees' annual report. The Charity Commission suggests it is good practice for smaller charities to report on their risk management activities too. By establishing a strong risk management process and involving trustees from the start, it minimises the chances of something going wrong on their watch.

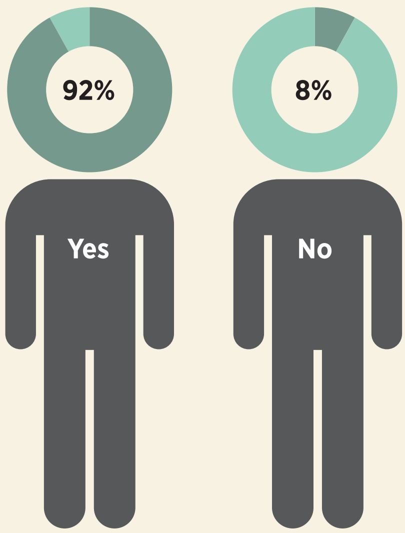
Encouragingly, the survey results showed **92%** of charities involve their trustees in the risk management process. The small percentage of those who said they didn't think it was needed, did not consider it relevant either because trustees are not involved in the day-to-day running of the charity, time restraints, or it's seen as someone else's responsibility.

However, **76%** of charities said they offer no in-house risk management training, citing a lack of expertise, funding and resources. A handful said they believed it unnecessary, assuming trustees already have sufficient experience of risk management. "Many are CEOs or C-Suite executives in their respective organisations where it is customary to undergo risk management training," said one respondent.

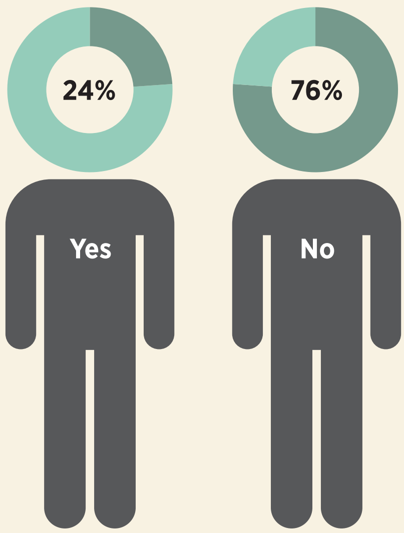
Cases like Kids Company prove just how important it is for charities and their trustees to take their responsibility for risk management seriously. The risks a corporate organisation faces can be very different to those charities face, so specific training is essential.

To be effective, a risk management plan needs to be kept up to date and risks regularly reviewed, monitored and assessed.

Do you involve your trustees in the risk management process?



Does your charity provide risk management training for trustees?



What are the type of risks charities face?

The risks your charity might face will depend on factors such as its size, funding and activities. For example, managing property, employing staff, using volunteers, using IT, working with children or other vulnerable people, or implementing change all involve elements of risk.

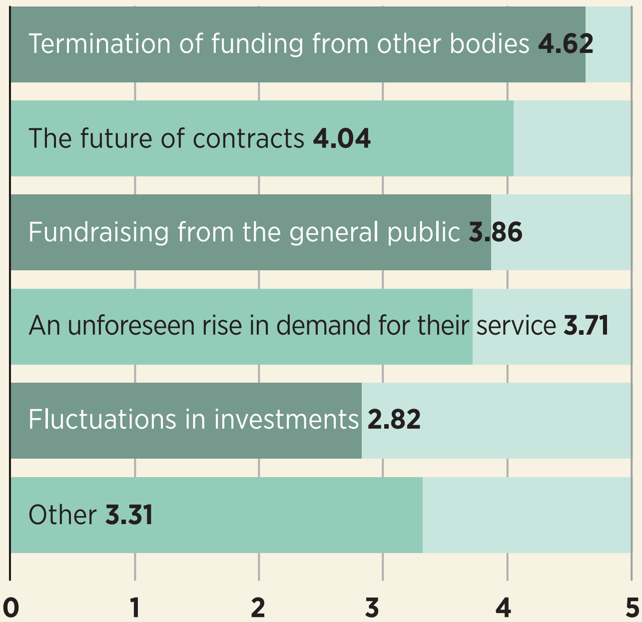
Among those questioned in our survey, the biggest concern was financial, with "termination of funding from other bodies" ranking as the most important. By having a risk management plan you'll have already identified what the potential risks might be for your charity, how serious they are, and what action you will take to avoid them.

As well as current risks, charities also need to identify any emerging risks that could have a detrimental impact such as those related to the internet and cyber crime, like hacking, loss of personal data or online fraud. "One key area of a risk management plan is being able to look into the future at emerging risks. It can require more abstract thinking but it's key to be able to spot the next issue on the horizon," says Ecclesiastical's charity director, David Britton.

"This may mean reviewing upcoming legislation changes, government issues and changing needs of the charity's beneficiaries. Trustees have a tough job of staying abreast of all these potential risks so consider seeking advice from other charities or professional advisers," he adds.

A good risk management plan enables a charity to take an active role in planning for the future, looking at areas in which it can improve, and assessing what it can do as an organisation to reduce the risks. The survey results showed charities are keen to enhance their risk management strategies, with participants citing "more trustee ownership", "more staff qualified in safeguarding" and "clearer lines of responsibilities" as some of the areas they'd like to improve over the coming year.

How important are the following risks to your organisations? Rank in order of importance – 1 least important – 5 most important:



What would you like to see improved within your charity regarding risk and crisis management in 2016?

- **More trustee ownership of risk and crisis management**
- *Ensuring operational and strategic risks are better distinguished*
- **More staff qualified in safeguarding at a higher level**
- *Clearer lines of responsibilities*
- **Establishment of 'risk register' and for trustees to have 'risks' as a separate item at meetings**
- *More formalised structure where senior staff and trustees review and manage risk*
- **Best practice guidance for charities regarding risk management and how to induct trustees about their legal role regarding risk**
- *More resources to manage risk and to cover the costs when needed as mitigation will never be 100% effective*

What if the worst happens?

When things do go wrong, you want to know there is a strong crisis management plan to fall back on. The most common crisis our survey participants said they had experienced was a decline in funding and donations **(82%)**, followed by damage to reputation due to an unforeseen incident **(41%)**. But it isn't just external sources that can cause problems. Rather alarmingly, **32%** said they had experienced fraud, either by charity employees, a boss or a trustee.

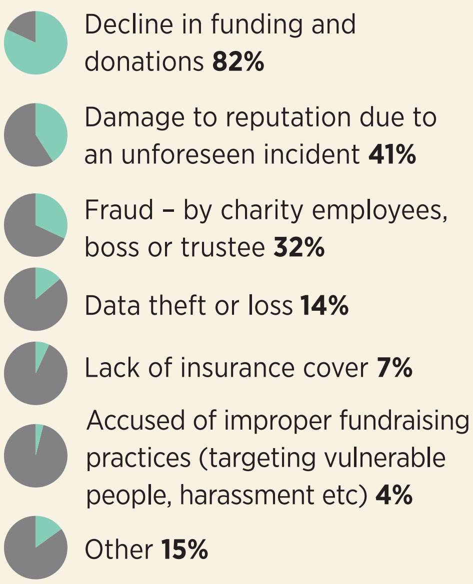
The impact of fraud on a charity, particularly on smaller charities, can be significant. Not only can it have a detrimental effect on finances, but it can cause distrust among beneficiaries, donors, funders, employees and the general public damaging its reputation and future fundraising prospects. Trustees have a responsibility to reduce the risk of such events happening in the first place but should they occur, it is important they are addressed responsibly and properly.

A strong communication and public relations plan is particularly important at a time of crisis. The way an organisation communicates during this time can make the difference between a situation escalating out of control and it being a minor setback. Having pre-prepared templates to use for making statements either to the press or on your website, for example, can be an advantage.

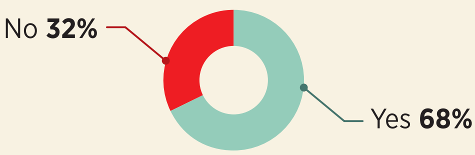
Even though the majority of participants in the survey said they had a crisis management plan in place, almost a third **(32%)** admitted they didn't. When asked the main reason, the overwhelming response was lack of resource **(52%)**, followed by not thinking they needed one **(19%)**.

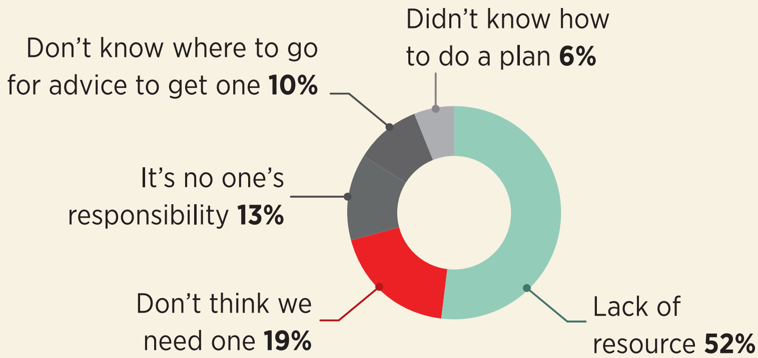
Poor crisis management reflects badly on both trustees and the charity. As a part of an effective risk management process, a charity needs to consider what it would do if a serious event did occur. Sometimes referred to as a Business Continuity Plan (BCP), this plan sets out what action needs to be taken to resume normal operations as soon as possible. If you don't have a crisis management plan in place, there's a quick guide to drawing up a BCP below.

Which of the following crises have you faced during your career in the third sector?



Thinking about risk management, do you have a crisis management plan in place should the worst happen? If you answered no, what is the main reason?





Does your charity have ample cover?

If your charity does find itself at crisis point, you'll want to know you have ample insurance cover to protect you, otherwise you could find yourself out of pocket.

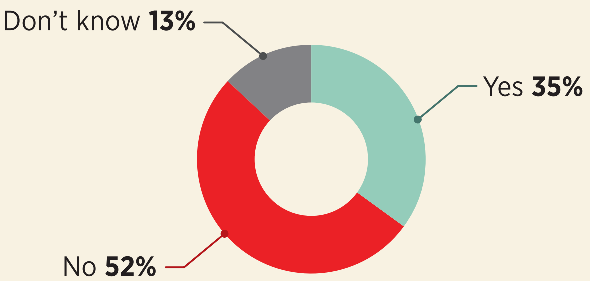
Most respondents who have had to make a claim agreed their level of cover was adequate, yet **44%** said they failed to update their risk management guidelines following the claim, potentially leaving them open to the same problem arising.

In light of the findings that **32%** of charities said they have experienced fraud, charities can consider protecting against this risk with fidelity insurance cover. Fidelity insurance covers charities against loss of money or goods from employee or volunteer fraud. Insurers can also offer advice on the usual standards of financial controls required to help manage the risk of fraud.

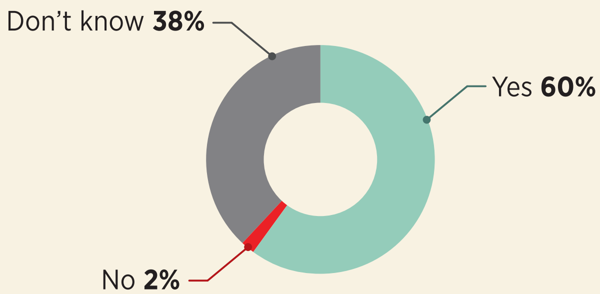
"No matter how extensive the insurance cover purchased, it is not an alternative to sensible risk management and sound governance," says Britton. "A sensible approach to risk management can help your charity be more resilient to issues as they arise, be they reputational or financial.

"Simple steps such as keeping relevant and topical records of risk assessments, policies and accident reports will help insurers defend you when legal claims occur, and help you make sure your charity is operating as safely and smoothly as possible. Ultimately fewer claims will help keep insurance costs low, which is always helpful when budgets are tight," he adds.

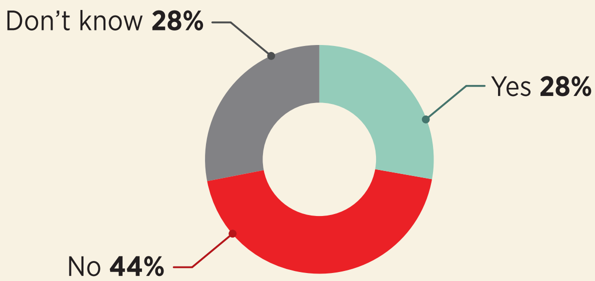
Has your charity ever had to claim on its insurance?



Was your cover adequate to meet the claim?



As a result of your claim, did you change your risk management guidelines?



Conclusion

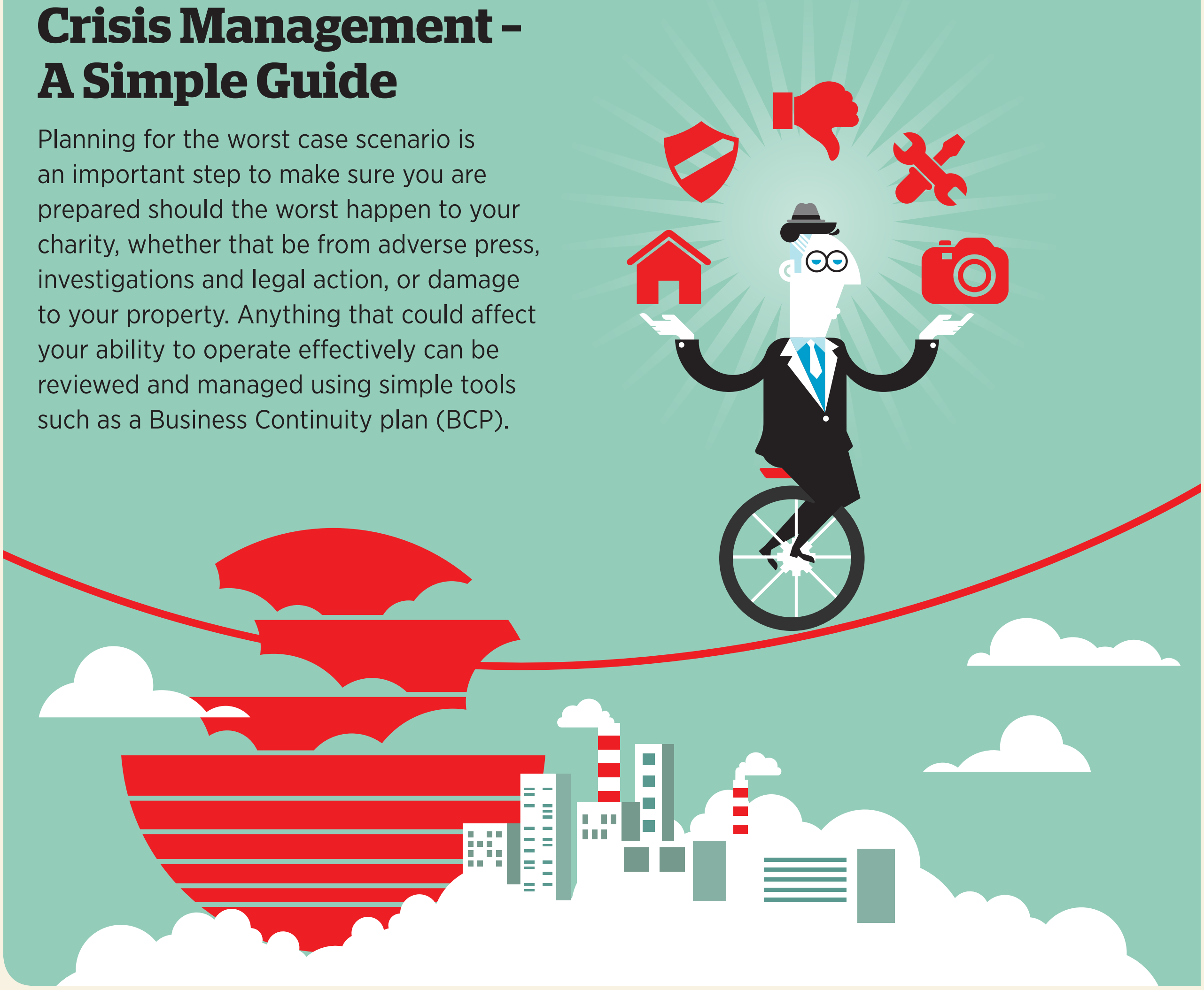
With the right risk strategy and training in place, both charities and trustees can feel confident they are sufficiently prepared should the worst happen. Although the survey highlighted a few areas of concern, there were several positives to take. In particular, the statistic that **92%** of charities involve their trustees in the risk management process and **68%** have a crisis management plan in place. The majority of charities, it seems, are doing what they can to protect themselves and their trustees from the risks.

Providing they are aware of their responsibilities and are satisfied there is a proper risk management process in place, trustees should have little to fear about their role. Cases where action has been taken against trustees are few and far between among the 180,000 registered charities in England and Wales. The Charity Commission and the courts appreciate that trustees are only volunteers and they do not seek to punish them except in the most serious cases of fault or neglect.

If you don't already have a crisis management plan in place, take a look at our guide below on drawing up a Business Continuity Plan.

Crisis Management – A Simple Guide

Planning for the worst case scenario is an important step to make sure you are prepared should the worst happen to your charity, whether that be from adverse press, investigations and legal action, or damage to your property. Anything that could affect your ability to operate effectively can be reviewed and managed using simple tools such as a Business Continuity plan (BCP).



Why use a Business Continuity Plan?

Having a BCP is invaluable because it tells everyone who needs to know...

- what resources are needed
- where they can be sourced from – often at what approximate cost
- who is going to deal with what
- what deadlines must be met to help recovery

Tips for preparing a BCP

1 Start by carrying out a risk assessment to identify potential issues, then determine what plans you need to put in place to reduce or control the risk – and what you need to do should problems materialise.

2 Appoint a steering committee/team to work out the plan and assume control in the event of any issues arising. They need to have commitment from the top, sufficient resources and represent all the key areas of the organisation. Have a coordinator and deputy – this should be a senior executive and have appropriate authority to make decisions.

3 Establish a strong communication/public relations element to the plan so you are prepared to react quickly in a crisis. Make sure you have a media trained spokesperson(s) that can present information accurately and consistently.

4 Make sure all stakeholders are made aware/given copies of the plan and kept informed of any changes. Think about where it should be held for quick access both on and off site.

5 Set the plan around the objectives of the BCP:
a) Continue to operate as normally as possible
b) Progress back to normal working as quickly as possible
c) Cause the least possible inconvenience to all parties
d) Minimise the risks of accident, injury or ill health.

6 Split your plan into two, with part one forming an emergency plan of what to do in the first 24 hours, and part two mapping out recovery details once the emergency is over and the full extent of the issue is known.

7 Ensure the plan is kept up to date. It's a living document, so think of staff changes, new activities or changes to suppliers and so on.

8 Carry out a practical exercise. Run through a scenario to test it, the devil is in the detail and you'll find things that you missed or don't quite work. Better to find out in a practice run rather than an actual emergency.

Ecclesiastical Insurance

Ecclesiastical is much more than an insurer and has committed to helping protect not-for-profit organisations for over 125 years. Our goal is to be the most trusted and ethical specialist financial services group, giving some £55 million to our charitable owner in the past five years. We are also the UK's top insurance company for charitable giving, ranking Ecclesiastical 13th in The Guide to UK Company Giving.**

To find out more about our charity insurance please visit **www.ecclesiastical.com/charityinsurance** or tweet us using **@Ecclesiastical**.

**2014/15 Guide to UK Company Giving

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