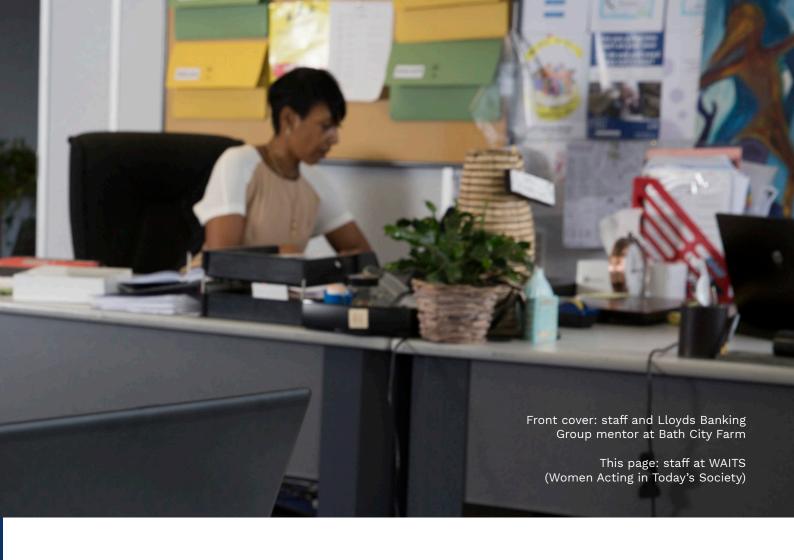




Lloyds Bank Foundation for England and Wales partners with small and local charities who help people overcome complex social issues. Through long-term funding, developmental support and influencing policy and practice, the Foundation helps those charities make life-changing impact. The Foundation is an independent charitable trust funded by the profits of Lloyds Banking Group as part of their commitment to Helping Britain Prosper.

Lloyds Bank Foundation is committed to providing this information in a way that is accessible and useful for charities. This information, however, is not in any way intended to amount to authority or advice on which reliance should be placed. You should seek professional advice as appropriate and required.



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You'll notice that a few pages have been presented in landscape view. When viewing these pages on a computer, right click and select 'rotate clockwise' so that you can read the information the right way up.

What is risk management?

Risk management is a key part of effective governance for any charity. Understanding the risks your charity faces and managing those risks effectively has a number of benefits as it will support planning and informed decision making enabling your charity to make the most of opportunities and achieve its aims more successfully.

Demonstrating that you are in control of your risks will also help you to protect your reputation which in turn will help to maintain stakeholder confidence.

How this toolkit can help you

This toolkit is designed to help you to manage your charity's risks. Sometimes it can be difficult to know where to start and what type of risk management framework will work best for your charity – this is where we can help.

Lloyds Bank Foundation, together with Lloyds Banking Group, has produced this guide to help charities to understand the basics of risk management. The toolkit was first used by a Lloyds Banking Group Charity Mentor with a charity that was seeking to improve its risk management systems. One year later, as a result of their new risk management process, the charity won a contract with Barnardo's and drew comment on their 'controlled and risk aware' position. The charity has since gone from strength to strength.

Whether you are new to risk management or just need to refresh your skills, this toolkit is designed to help you to learn what makes a risk, how to identify risks, how to put controls in place to manage risks, and what to do when something goes wrong. The glossary (see page 27) will help you to understand the risk terminology used throughout this document. Using our practical examples, exercises and advice, we hope you will be able to develop your own approach to risk management in a way that meets your charity's individual needs.

Remember that risk management takes time. It may take up to six months to go through the whole process; this toolkit is designed to make that journey easier. We hope you find this guide useful.

This toolkit offers step by step risk management guidance, but if you want to find out more, log on to the Charity Commission website.

The Risk Life Cycle

As you progress through the guide, you will identify the risks to your charity; analyse the potential impacts of those risks; plan how to deal with them and finally, respond, deciding whether and how to reduce those risks.

The risk management process

Here is an overview of the entire risk management process. This guide will walk you through the steps outlined below, breaking each step down into manageable tasks. you As you progress through the guide, you may find it helpful to refer to this chart, which guides you in sequence through your key steps and activities.



Introducing Henry's House 🏠

Throughout this guide, we'll be using a fictitious small charity, Henry's House, to help you work through examples of the risk management process. Henry's House faces many of the challenges that small charities need to tackle on a daily basis.

Henry's House operates a drop-in centre for homeless people. Service users can get a hot meal and free advice on housing and other support services. Based in one building, Henry's House stores information about clients in paper files and on its computer systems.

TIP: Look out for the icon throughout this toolkit for helpful examples and templates that you can use for your own charity's risk management process.



Step 1: Identifying risk



Risk categories: What could harm your charity?

Risks come from many sources and may be associated with all aspects of your work, for example, your premises or governance.

Draw up a list of all the potential risks you can identify for your charity, divided by theme.

Henry's House Example 🗍



Here is an example from Henry's House to help you - remember this list is not exhaustive and there may be additional themes linked to your charity's particular circumstances.

Theme	This covers:
Premises	Security, insurance, health & safety
People	Staff, volunteers, clients
Legal/regulatory	Health & safety legislation, data protection legislation, Local Authority requirements
Governance	Roles and responsibilities, escalation process
Operations	IT systems, day-to-day management and running of the charity
Financial	Grants, contracts, donors, budgeting, income and expenses

Use this example to help identify your own risks. There is a template for you to complete at the end of the toolkit.

How to record a risk: risk statements

Now that you've identified your risks, you need to record them. Learn how to write a risk statement using these easy steps.

What could go wrong?

In risk language, this is called the "event"



Work out why

In risk language, this is called the "cause"



Work out what this means for you

In risk language, this is called the "impact"



Write the risk statement

This is a statement putting together the event, cause and impact

You will find a template for this chart at the end of the toolkit.

Henry's House Example 🖺

- 1. Loss of funding
- 2. Can't access premises



- 1. Competition from other charities
- 2. Fire / flood



- 1. Reduced services
- 2. Inability to deliver services



Example Risk Statement:

The reduction in funding available due to increased competition from other charities impacts the ability to provide sufficient client services and may affect the charity's long-term sustainability.

Identifying, recording and addressing risk at Henry's House 📶



Here are some examples of risks identified at Henry's House, using the method on the previous page.

Once you become familiar with this example, you can complete the template provided at the back of this toolkit for your charity; this will help you create your risk register (see page 10).

Identifying risk	Example risk 1	Example risk 2
What could go wrong? (event)	Premises not available or not accessible	Loss or compromise of confidential client data
Why it could happen (cause)	Building incident e.g. flood, fire	IT systems failure or system security compromised due to lack of user access controls and/or security protection software
What could potentially happen (impact)	Unable to provide client services	Breach of data protection legislation / impaired ability to support client services
Create risk statement	Since Henry's House operates from a single site, if the premises are either unavailable or inaccessible because of a building incident, we will not be able to support client services.	Risk of loss / compromise of confidential data due to inadequate storage and security controls leading to non-compliance with the requirements of data protection legislation

Don't forget to use the template found at the end of the toolkit to create your own!

Who is responsible for what?

Although your trustees have ultimate responsibility for risk management, for each risk you should nominate an individual who is responsible for ensuring the risk is effectively monitored and managed on a daily basis. There may be some obvious candidates - for example, if you have a building or office manager, managing premises or security risks may fit well with their role; whereas someone with a finance remit may be a good fit to manage any financial risks.



The risk register

You are now ready to begin filling in your risk register. A risk register is where you chart key information about each identified risk and the actions you are taking to manage them. As you work through this toolkit, you will be able to fill out the entire risk register template found at the end of the toolkit. For now, you can just add your risk statements.

Take a look at this example from Henry's House to help get you started:

Henry's House Risk Register [1]



Risk	Inherent Risk	Residual Risk	Control Effectiveness	Risk Owner
Because Henry's House operates from a single site, there is a risk that if the premises are unavailable/inaccessible because of a building incident we will not be able to support client services				Henry
Risk of loss/compromise of confidential data due to inadequate storage and security controls leading to noncompliance with the requirements of data protection legislation				Kudzai

Don't forget to use the template found at the end of the toolkit to create your own!



Step 2: Rating your risks



Are some risks riskier than others?

You might be more worried about some risks than others, perhaps because of a near miss in the past, or because of known problems. By rating your risks, you can indicate which are the most serious and reflect this in your range of proposed responses. Rating also helps you prioritise your charity's risks.

How to rate a risk

Before considering how to manage a risk (or assessing how well you already manage a risk), you need to assess its seriousness. You do this by measuring its impact and its likelihood. The combination of these factors indicates the inherent risk rating (or worst-case scenario). The first step is to establish the Inherent Impact Score.

Working out the Inherent Impact Score

Potential impacts are ranked by their severity. Each impact is given a ranking from 1 (low impact) to 4 (severe impact); the ranking system is helpful in ensuring that scoring is consistent across all risks, which in turn helps you to deal with them appropriately.

You will need to create your own Impact Scoring Matrix to assess what outcomes, for your charity, would be considered low/moderate/material/severe impact.

Take a look at the Henry's House Impact Scoring Matrix on the next page as an example, then use the template at the back to create your own when you are ready.

Be aware that more than one statement may apply to any risk, for example, a building incident may result in a MODERATE disruption to services but there may be a MATERIAL impact in terms of negative media coverage. In these instances, the score would reflect the highest rating; in this case, MATERIAL.

Remember, when scoring the impact you are assessing the risks without any controls in place, or as if the existing controls fail. In Step 3 we will learn more about controls.

Henry's House Impact Scoring Matrix



	Severe Score = 4	Material Score = 3	Moderate Score = 2	Low Score = 1
	Death of staff member, volunteer or client	Harm to staff member, volunteer or client	Negative impact on staff member, volunteer or client	Minor negative impact on staff member, volunteer or client
Potential outcomes	Significant harm to staff member, volunteer or client	Internal review process triggered	Formal complaint/ concern raised by staff member volunteer or client	Complaint/ concern raised by staff member volunteer or client
ntia				
Pote	Formal complaint or concern raised by funder or partner organisation	Informal complaint or concern raised by funder or partner organisation	Minor financial impact (5-10%)	Financial impact less than 5%
	Severe disruption to key services	Negative media coverage	Minor impact on services	Minor incident, no significant impacts

Don't forget to use the template found at the end of the toolkit to create your own!

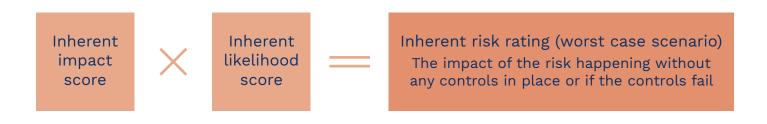
Working out the Inherent Likelihood Score

Now that you have identified and scored the impact of your risks, the next step is to score the likelihood of these risks occurring. Use your judgement and past experience to select the most appropriate scores, using the table below to allocate a likelihood score.

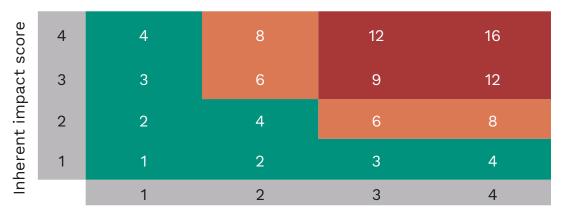
	Risk likelih	nood table	
Low	Medium	High	Expected
Score = 1	Score = 2	Score = 3	Score = 4
1-10% chance of risk occurring	11-50% chance of risk occurring	51-75% chance of risk occurring	> 75% chance of risk occurring

Calculating the Inherent Risk Rating

Having worked out your impact sore using the table on page 13, and your likelihood score using the table above, multiply them to get your Inherent Risk Rating.



You can use a simple scoring matrix like this one to label your inherent risk ratings in your risk register by colour, according to their severity:



Inherent likelihood score

So if your risk achieves an Inherent Risk Rating of 1 – 4, it can be labelled green (low inherent risk). Between 5 and 8 would be amber (medium), and 9 or above would be red (high.)

Henry's House Risk Register 📆

	Inherent Impact Score	Inherent Likelihood Score	Inherent Risk	Residual Impact Score	Residual Likelihood Score	Residual Risk	Control Effectiveness	Risk Owner
Because Henry's House operates from a single site, there is a risk that if the premises are unavailable/ inaccessible because of a building incident we will not be able to support client services	4	က	72					Henry
Risk of loss/ compromise of confidential data due to inadequate storage and security controls leading to non- compliance with the requirements of data protection legislation	4	2	ω					Kudzai

Step 3: Creating controls



By this stage, you will have identified your risks, worked out your inherent risk rating - and allocated people to manage each risk.

Now it's time to catalogue what you are doing to control each risk.

Sneak peek...

Once you've assessed your existing controls, we'll ask you to re-score the impact and likelihood of each risk, but this time you will factor in the effect of these controls.

This will give you Residual Risk Ratings; these will help you to judge whether your controls are adequate or whether you need to employ additional measures.

Photo: Emmaus South Wales



What is a control?

Controls stop bad things happening Controls alert you to a problem Controls help to mitigate the impact of risk

Types of controls

There are three types of control:

- 1. PREVENTATIVE controls reduce the likelihood of risks occurring at all
- 2. DETECTIVE controls identify potential problems
- 3. MITIGATING controls reduce the impact of issues that arise

You may also be able to implement controls that TRANSFER THE RISK (e.g. by taking out insurance against the risk.)

You can use a single type of control or a combination of controls to manage your risks. It is up to the Risk Owner to establish appropriate controls, drawing on their experience and expertise - this is why it makes sense to choose the most appropriate person for each risk. Don't forget, you can draw on the support of your colleagues, Trustees and, if appropriate, volunteers to aid this process.

Some of the controls you include in your risk register may be ones that you already have in place, and others may be new ones that you have now realised you need to implement as a consequence of identifying the inherent risk rating.

Below you can see how Henry's House manages one of their risks using each of the types of controls outlined above. You can do the same for your own charity by filling in the template found at the end of the toolkit.

Implementing controls for risks at Henry's House



Risk: Loss / compromise of confidential data due to inadequate storage and security controls leading to non-compliance with the requirements of data protection legislation

PREVENTATIVE • controls

Reduce LIKELIHOOD of risk by

- Training all staff so that they are aware of the need to safeguard data
- Having a clear desk policy
- Making sure confidential waste is destroyed securely
- Ensure anti-virus software is kept up-to-date
- Restricting access to system files and computers
- Putting passwords on computers

Control type

REDUCE IMPACT by

DETECTIVE controls

- Keeping an eye on system activities to detect any unauthorised access attempts
- Checking that all documents are locked away at the end of the day

MITIGATING controls

REDUCE IMPACT by

- Password protecting computer files so they cannot be opened even if there is unauthorised accesses
- Regularly backing up data

Don't forget to use the template found at the end of the toolkit to create your own matrix.

Step 4: Rate risks again



Working out Residual Risk

As we indicated in the previous section, it's time to re-score the impact and likelihood of each risk. This time, however, you'll take account of the controls you established in the previous section when determining these scores.

Working out the Residual Impact Score

Just as when you calculated the Intrinsic Impact Score, you'll rank potential impacts by their severity. Use the impact scoring matrix you developed earlier (see page 13).

Working out the Residual Likelihood Score

The next step is to score the residual likelihood of these risks occurring. Use your judgement and past experience to select the most appropriate scores. Again, refer to this table when scoring – it's the same as the one you used last time.

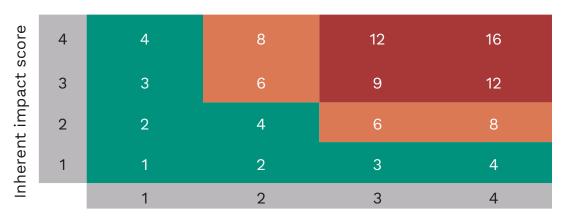
	Risk likelih	nood table	
Low	Medium	High	Expected
Score = 1	Score = 2	Score = 3	Score = 4
1-10% chance of risk occurring	11-50% chance of risk occurring	51-75% chance of risk occurring	> 75% chance of risk occurring

Calculating the Residual Risk Rating

Now that you have worked out your residual impact and likelihood scores, multiply them to get your Residual Risk rating.



Use this simple scoring matrix – the same as the one used to label the inherent risk ratings – to determine your residual risk ratings:



Inherent likelihood score

It's up to you to determine what level of residual risk is acceptable in each instance. A high residual risk score won't necessarily prompt you to conclude that your controls are inadequate and that you need to act to reduce this rating. You might decide that a higher level of risk is acceptable in some instances.

Wherever you do determine that your controls are not as effective as you would like, task the risk owner with the responsibility for revising or amending controls. As revisions are made, update your risk register.

Henry's House Risk Register 📆



Risk	Inherent Impact Score	Inherent Inherent Likelihood Risk Score	Inherent Risk	Residual Impact Score	Residual Likelihood Score	Residual Risk	Control Effectiveness	Risk Owner
Because Henry's House operates from a single site, there is a risk that if the premises are unavailable/ inaccessible because of a building incident we will not be able to support client services	4	က	7	က	7	9		Henry
Risk of loss/ compromise of confidential data due to inadequate storage and security controls leading to non- compliance with the requirements of data protection legislation	4	2	ω	ო	/-	ю		Kudzai



Step 5: Stay alert to risk



Developing a risk register isn't a one-off activity. Risk registers are dynamic tools that help you to continually monitor and manage risks.

The risks that your charity faces will change over time. As things change, new risks may occur, existing risks may change, and some risks will disappear altogether.

Now that you have identified and scored your risks, and put your controls in place, you need to consider how you will be alerted as problems arise.

Are your controls adequate?

Risk Indicators form your early warning system, alerting you to problems that need to be fixed and delivering reassurance where everything is working as it should be.

Once you have risk indicators in place, allocate responsibilities for applying these on a regular basis to test your controls. The example on the next page will help you understand how risk indicators are identified at Henry's House.

Once you have risk indicators in place, apply them on a regular basis to test your controls. The test results will indicate whether the controls are working (satisfactory), not working at all (unsatisfactory), or somewhere in between.

Record your findings and at regular intervals use them to adjust the control effectiveness assessment in your risk register and to record any mitigating actions that you have agreed to improve the effectiveness of your controls.

Look at the Henry's House's risk register on page 25 to see how they have presented their findings in the control effectiveness column.



Henry's House Risk Indicator



RISK: Risk of loss confidential data due to inadequate storage and security controls leading to non-compliance with the requirements of data protection legislation.

STEP	ACTION	EXPLANATION	EXAMPLE
1	Identify the risk indicator - this should be linked to the cause, event or impact of the risk.	What do you want to stop from happening?	Loss of electronic data or paper files containing confidential client information
2	Select the control indicator –linked to the performance of the control (how do you know it is working).	What controls are in place to ensure data is protected?	Data disks / paper files held in a secure cabinet which is locked when not in use or the office is not in use
3	Decide how often the control needs to be checked (every day, once a week etc.)	The more likely something is to go wrong, the more frequently you should test it	Test daily
4	Understand the range of outcomes (what does 'normal?' look like?)	What should you see?	No open cabinets or documents not stored in cabinets when office is unoccupied/not in use
5	What result would indicate there is a problem or that a problem may occur?	What shouldn't you see?	Documents left out on desks / filing cabinets when the office is not in use
6	Set Tolerances – what is an acceptable degree of variation from the expected standard in the application of a control? The more variation you accept, the more risk you are tolerating. This is known as Risk Appetite	If you undertake an end of day clear desk / locked cabinet check every day for a month and find a document left out on one occasion, do you consider this acceptable? How would you view three instances? Six instances?	You might use a 'traffic light' system to score the results. E.g. failures in one month: 0-1 2-4 4+

Don't forget to use the template found at the end of the toolkit to create your own.

Presenting risk information

Your charity's Trustees and Senior Management need to be kept regularly updated on risk management. To help you to create your own risk pack, we recommend producing a single page summary of the main risks – this can take a similar format to the Risk Register.

In this summary, you can include Trend Indicators. These show:

- the position since the last report (stable, improving or deteriorating)
- the effectiveness of controls in place
- the current risk rating

You may wish to use arrows and/or colour coding using a RAG (red, amber, green) rating to offer a quick overview of these trends.

Remember, how you present the actual risk information will depend on your audience and whether they are directly involved in the detail of the risk.

The Henry's House example on the next page uses the same format as their Risk Register, including trend indicators & mitigating actions.

Colour coding

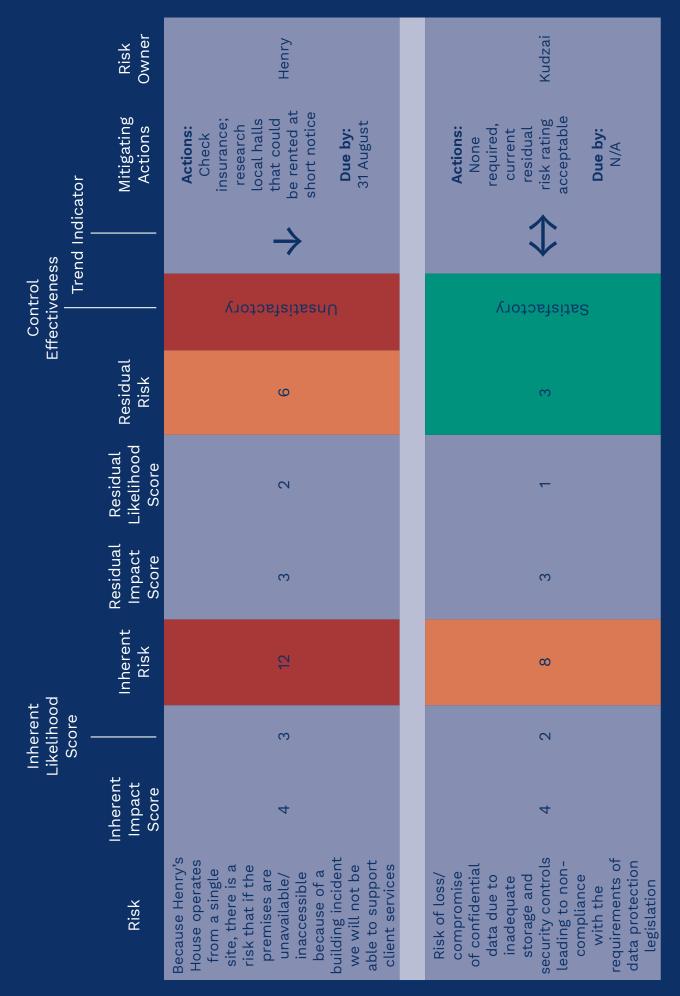
Green: Satisfactory. Each control your charity has in place for this risk is effective. Testing is up-to-date and there is a good mix of preventative and mitigating controls. Your controls are fit for purpose, congratulations!

Orange: Attention required. There are some weaknesses in your charity's controls for this risk that need immediate attention. Some controls and tests are out of date. More than one control is ineffective.

Red: Unsatisfactory. Your charity's controls for this risk are completely ineffective. The charity is left exposed to an unacceptable level of risk. Address as soon as possible.

Henry's House Risk Register





How to write a risk report

Sometimes, things can go wrong.

When a risk occurs, it's important to take time to learn from the incident and apply the lessons for the future. Follow these steps to help you write your own risk report:

1. Identify incidents, for example:

Operational losses
Regulatory, policy and control breaches
IT systems failures
Infrastructure failure
Health & Safety Accidents
Key indicators consistently outside Red
thresholds

2. Investigate Circumstances & Impact

Use the questions provided (right) to help you structure a strong risk report that outlines what happened and how this affected your charity

3. Review the Risk Life Cycle

Review the Risk Life Cycle (page 5) for potential gaps in your approach decisions or follow through on your risks

4. How significant was the incident?

Include your judgement of how serious you think the incident was and what should be done about it. Do you need to revisit the Risk Life Cycle (page 5)?

5. Draft the report

Avoid jargon, abbreviations & acronyms. Keep descriptions clear and concise. Think about who needs to read this report. What do they need to know?

Use these questions to help you structure the risk report referenced in Step 2 on the left of this page:

What?

What happened in the incident?
What was the sequence of events?
What were the causes?
What is the likelihood that this might
happen again?
What is the potential impact?

When?

When did the incident occur?

Was it a one off or has it
happened before?
When it occurred was anything special or different happening that was out of the ordinary?

Where?

Where did the incident take place?
Was it restricted to one location?
Where were people and/or assets
relative to one another compared with
the 'normal' locations?

Who?

Who was involved in the incident in terms of being affected, responsible or involved in some way?

Who was a primary or secondary witness to the incident?

Why?

Why do you think the incident happened? Why did the incident occur at this point in time, and in this particular way?

How?

How did the incident arise?
How can we best understand what happened?
How can we learn from this incident?



Top tips for managing your risk process

Ensure that risk management becomes part of the day to day activity of your charity, including:

Carry out regular risk reviews

- Risks may change because of internal/external factors: are there any new risks or have some of your original risks disappeared?
- Update your risk register
- Provide an update to your Trustees

Monitor your controls and risk indicators

- Identify any potential gaps or weaknesses
- Are there any signs of a potential problem?
- Has this changed the risk scores?
- · Has the position deteriorated and what actions do you need to take?

Remedial actions

- Fixing gaps and strengthening controls
- Test the outcome has the action been effective?

Incident tracking and management

- How did you manage the outcome?
- Did a control fail what do you have to do to prevent it happening again?
- Learning from incidents
- Share lessons learned with others in your charity.

And finally ...

Congratulations on making it through the toolkit!

Risk management is an important part of a charity's daily activities. Working through this plan is a significant step forward.

If you are a Lloyds Bank Foundation-funded charity and you believe you may need additional support with risk management, please get in touch with your Grant Manager.

Glossary and useful terms

Here is a list of terms used throughout this report to help you get to grips with the language used when talking about risk and risk management.

Term	Meaning
Control	Something which helps prevent the risk occurring or gives the charity the indication that something may be going wrong. Using the Henry's House premises example, this may involve regular inspection of the building to identify any possible issues. Controls can: PREVENT the risk materialising DETECT a problem (the quicker, the better!) MITIGATE the impact if an issue does happen.
Control testing	Independent check to ensure controls are producing required outcomes
Event (issue)	An issue is an unplanned event which has happened and which requires actions to resolve.
Impact	What would the Impact be?
Inherent Risk (worst case scenario)	Likelihood/impact of the risk happening without any controls in place. Scoring the inherent risk shows the extent of the potential impact if the controls were to fail.
Issue (event)	An issue is an unplanned event which has happened and which requires actions to resolve.
Likelihood	How likely is the risk to occur?
Mitigation	Actions taken to reduce the impact if a risk does occur – for example, buildings insurance is a mitigation which reduces the potential impact of damage to your premises.
Residual Risk (current position)	Likelihood/impact of the risk happening with the current level of controls in place. Scoring the residual risk shows the extent of the potential impact if the controls in place are fully effective.
Risk	Something that might happen, where something of value is at stake and the outcome is uncertain.



Risk Appetite	The amount and type of risk that the organisation is prepared to seek, accept or tolerate. Having identified and scored your risks, you need to decide whether you are comfortable with the current position, or if actions are required to reduce the overall risk score to a position where you can tolerate that level of risk in your organisation.
Risk Indicators	Information which provides insight into the current position of a risk and the effectiveness of the controls in place.
Risk Management	Describes the ongoing process of identifying risks and the actions taken to stop them from happening or reduce their potential impact.
Risk Management Policy	The way in which your Charity manages risks should be documented in your Risk Management Policy. The Charity Commission website contains guidance on the content of this document and how it should be used by Charities.

Templates

These templates reflect the tables found throughout the toolkit. You can fill these in, or use them as a guide to creating your own.

Identifying risks – part one (see page 7)				
Theme	This covers:			

Identifying risks – part 2 (see page 9)					
Identifying Risk	Risk 1	Risk 2			
What could go wrong (Event)					
Why could it happen (Cause)					
What could potentially happen (Impact)					
Create Risk Statement					

	Impact Scoring Matrix (see page 13)							
	Severe Score = 4	Material Score = 3	Moderate Score = 2	Low Score = 1				
mes								
Outcomes								
Potential (
Pote								

	Implementing risk controls (see page 17)					
Control type	Risk:					
	PREVENTATIVE controls					
	DETECTIVE controls					
	MITIGATING controls					
	TRANSFER risk					

Risk Indicator (see page 23) **RISK:** Action Your risk indicator 1. Identify the risk indicator - this should be linked to the cause, event or impact of the risk. 2. Select the control indicator - linked to the performance of the control (how do you know it is working?) 3. Decide how often the control needs to be checked (every day, once a week etc.) 4. Understand the range of outcomes (what does 'normal?' look like?) 5. What result would indicate there is a problem or that a problem may occur? 6. Set Tolerances - should be based on what lies outside "acceptable" variation in a risk or control.

	Risk Owner				
	Mitigating Actions				
	Trend				
	Control Effectiveness				
age 25)	Residual Risk				
Risk register (see page 25)	Residual Likelihood Score				
	Residual Impact Score				
	Inherent Risk				
	Inherent Likelihood Score				
	Inherent Impact Score				
	Risk				