RISK MANAGEMENT
HOW TO IDENTIFY, ANALYZE AND MONITOR RISK

CHRIS GOVERN, VOLUNTEER CONSULTANT, MAS
MAS offers a wide range of pro bono consulting services for non-profit organizations, based on the extensive knowledge, expertise and resources of our Volunteer Consultants.

We do not charge fees for our services and all of our Volunteer Consultants’ time is donated.

For more than 25 years, we are proud to have worked collaboratively with over 14,000 non-profit organizations in the Greater Toronto area.

Clients have ranged in size from very small – 2 to 3 people working out of church basements – to major, high profile social service agencies.
LEARNING OBJECTIVES

• UNDERSTAND IMPORTANCE OF RISK MANAGEMENT

• UNDERSTAND HOW TO IDENTIFY, ANALYZE & MONITOR RISKS IN YOUR ORGANIZATION

• TOOLS TO HELP THE ORGANIZATION MANAGE RISK

• BOARD/STAFF ROLES IN RISK MANAGEMENT
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WHAT IS RISK?

• (EXPOSURE TO) THE POSSIBILITY OF LOSS, INJURY, OR OTHER ADVERSE OR UNWELCOME CIRCUMSTANCES; A CHANCE OR SITUATION INVOLVING SUCH A POSSIBILITY…RISK IS AN UNCERTAIN EVENT OR CONDITION THAT, IF IT OCCURS, HAS A NEGATIVE IMPACT

• THE POSSIBILITY OF SOMETHING BAD HAPPENING
WHAT IS RISK? SOME EXAMPLES

- PANDEMIC
- FAILURE TO MEET TERMS OF CONTRACT
- FINANCIAL MISMANAGEMENT
- FIRE, THEFT
- LOSS OF KEY PERSON
RISK MGMNT HAS MANY STAKEHOLDERS

- RISKS CAN IMPACT VARIOUS PEOPLE/ORGANIZATIONS
  - CLIENTS
  - STAFF
  - PARTNERS
  - FUNDERS
  - DONORS
  - PUBLIC
  - OTHER
RISK MANAGEMENT IS ONGOING

• IS
• ONGOING
• CULTURE
• LENS
• PROCESS

• IS NOT
• ONE TIME EXERCISE
• SOMEONE ELSE’S ISSUE
• SOMETIME THING
RISK MANAGEMENT IS A PROCESS

• PROCESS BY WHICH YOU IDENTIFY, ANALYZE AND MANAGE RISKS – THERE ARE 4 STEPS:

  • STEP 1: IDENTIFY RISKS
  • STEP 2: ANALYZE EACH RISK
  • STEP 3: DECISIONS ABOUT RISKS
  • STEP 4: MONITOR RISKS
DEFINE RISK & RISK MANAGEMENT

• ANY QUESTIONS?
STEP 1: IDENTIFY RISKS

• IDENTIFY CATEGORIES OF RISK (E.G. FINANCIAL MANAGEMENT RISKS, IT RISKS, COMPLIANCE RISKS)

• RISKS WILL DIFFER DEPENDING ON TYPE OF ORGANIZATION & ACTIVITIES

• RISKS CHANGE OVER TIME
STEP 1: IDENTIFY RISKS

• EXAMPLE CATEGORIES OF RISKS

  • COMPLIANCE/LEGAL
  • FINANCIAL
  • LEGAL
  • REPUTATIONAL
  • EXTERNAL
  • PREMISES
  • HR
STEP 1: IDENTIFY RISKS - EXAMPLES

- **COMPLIANCE RISKS** – failure to comply with external (e.g. regulatory) or internal (e.g. bylaws) requirements
  - LEGAL – e.g. failure to meet contract requirements, failure to meet employment standards
  - REGULATORY – e.g. failure to meet health & safety standards
  - CHARITY STATUS – e.g. operate outside of charitable objects; failure to meet reporting requirements
  - CONSTATING DOCUMENTS – e.g. operate outside of bylaws
STEP 1: IDENTIFY RISKS - EXAMPLES

- OPERATIONAL RISKS
  - IT – e.g. lose client data, security breach
  - PROGRAMS – e.g. failure to protect client safety
  - HR – e.g. failure to comply with Employment Standards Act, failure to attract sufficient volunteers, loss of key person(s)
  - REAL PROPERTY – e.g. fire & theft
  - CAPACITY GAPS – e.g. staff not sufficiently trained or knowledgeable, ED retires
STEP 1: IDENTIFY RISKS - EXAMPLES

FINANCIAL RISKS

• FUNDING/REVENUE – e.g. funding cutbacks; failure to meet fundraising targets
• FUNDRAISING – e.g. event risks
• FINANCIAL MANAGEMENT – e.g. fraud
• INVESTMENT – e.g. market losses
• CASH FLOW – e.g. mismatch in timing
STEP 1: IDENTIFY RISKS - EXAMPLES

• REPUTATIONAL RISKS

  • FUNDRAISING – e.g. campaign results in negative messaging
  • PROGRAMS – e.g. clients not satisfied
  • STAFF MORALE – e.g. high staff turnover/dissatisfaction
  • PARTNERSHIPS – e.g. poor partnership performance
STEP 1: IDENTIFY RISKS - EXAMPLES

• EXTERNAL RISKS
  • NATURAL DISASTER – e.g. storms, flooding, no power
  • PANDEMIC – e.g. Covid, SARS
  • TERRORISM
IDENTIFY RISKS

• QUESTIONS?
STEPT 2: ANALYZE EACH RISK

• FOR EACH RISK
  • WHAT IS THE LIKELIHOOD IT WILL HAPPEN?
  • WHAT IS THE CONSEQUENCE IF IT DOES HAPPEN?
  • HOW SEVERE IS THE IMPACT?
STEP 2: ANALYZE EACH RISK

• WHAT IS THE LIKELIHOOD IT WILL HAPPEN?
  • PAST EXPERIENCE
  • TRENDS
  • ENVIRONMENTAL ASSESSMENT
  • WHAT CONTROLS DO YOU HAVE IN PLACE?

• JUDGEMENT CALL

• RATE EACH RISK: HIGH, MEDIUM OR LOW
STEP 2: ANALYZE EACH RISK

• WHAT IS THE CONSEQUENCE IF IT DOES HAPPEN?
  • NAME THE OUTCOME(S)
  • HOW WOULD THE ORGANIZATION, CLIENTS, STAFF, OTHER STAKEHOLDERS BE IMPACTED?
  • EXAMPLES: loss of funds, negative impact on operations, potential legal liability, harm to clients/staff, loss of data
STEP 2: ANALYZE EACH RISK

• HOW SEVERE IS THE IMPACT?

  • LEVEL & DURATION OF DISRUPTION

  • LEGAL LIABILITY

• FINANCIAL IMPACT

  • RATE THE IMPACT HIGH, MEDIUM OR LOW
STEP 2 – ANALYZE EACH RISK

• QUESTIONS?
STEP 3: DECISIONS TO MANAGE RISKS

• REALLY ONLY 4 WAYS TO DEAL WITH RISK:
  • AVOID – stop/don’t start; eliminate the risk
  • TRANSFER – insurance, contracts
  • CONTROL – policy, ED limits, reporting
  • MANAGE – processes, training, monitoring
STEP 3: DECISIONS TO MANAGE RISKS

- **LIKELIHOOD**
  - L (Low)
  - H (High)

- **IMPACT**
  - L (Low)
  - H (High)

- ** quadrant**
  - Low Impact - Low Likelihood: Accept & Monitor
  - Low Impact - High Likelihood: Develop Processes
  - High Impact - Low Likelihood: Contingency Plan
  - High Impact - High Likelihood: Immediate Action

- **Actions**
  - Develop Processes
  - Monitor
  - Control Required
  - Immediate Action

- **Legend**
  - Manage & Monitor
  - Accept & Monitor
  - Contingency Plan
  - Immediate Action
  - Control Required
STEP 4: MONITOR RISKS

• DEVELOP A RISK MANAGEMENT FRAMEWORK THAT IS UPDATED AND REVIEWED REGULARLY

• MANY FORMATS WILL WORK – NEED A FEW KEY PIECES OF INFORMATION
  • RISK, RATINGS, CONSEQUENCES, HOW IT IS MITIGATED/MANAGED

• HAS ANYTHING CHANGED?

• ARE YOU SATISFIED WITH THE WAY ANY GIVEN RISK IS MITIGATED/MANAGED?
# EXAMPLE RISK MGMT FRAMEWORK

<table>
<thead>
<tr>
<th>RISK</th>
<th>LIKELIHOOD RATING</th>
<th>IMPACT RATING</th>
<th>CONSEQUENCE(S)</th>
<th>MITIGATION</th>
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<tbody>
<tr>
<td>FINANCIAL</td>
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<tr>
<td>RISK 1</td>
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<tr>
<td>RISK 2</td>
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<td>RISK 3</td>
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<td>LEGAL</td>
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<td>RISK 1</td>
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## RISK MANAGEMENT FRAMEWORK - EXAMPLE

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<tbody>
<tr>
<td>FINANCIAL</td>
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<tr>
<td>Fraud</td>
<td>L</td>
<td>H</td>
<td>• Loss of funds</td>
<td>• Annual audit</td>
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<td></td>
<td></td>
<td></td>
<td>• Possible reputational hit</td>
<td>• Financial management policy implemented</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>• Finance comm monitors</td>
</tr>
<tr>
<td>HR</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Loss of key person</td>
<td>M</td>
<td>M</td>
<td>• Negative impact on operations</td>
<td>• Succession plan in place for all key positions</td>
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<td></td>
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<td></td>
<td>• Loss of knowledge</td>
<td>• All key processes documented</td>
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<td>• Potential loss of revenue</td>
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<tr>
<td><strong>LEGAL</strong></td>
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<tr>
<td>Failure to protect privacy rights</td>
<td>L</td>
<td>H</td>
<td>• Inappropriate &amp;/or illegal disclosure of information</td>
<td>• Records procedures in place</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Potential legal liability</td>
<td>• Security processes in place</td>
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<tr>
<td><strong>OPERATIONAL</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Theft of property</td>
<td>L</td>
<td>L</td>
<td>• Temporary loss of operational capacity</td>
<td>• Insurance in place covers any major losses</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Expense to replace</td>
<td>• Security policy implemented</td>
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RISK MGMNT FRAMEWORK MODULE

• QUESTIONS?
ROLE OF THE BOARD

• LEAD BY DEMONSTRATING GOOD GOVERNANCE PRACTICES, INCLUDING EFFECTIVE OVERSIGHT

• DECISIONS FOR KEY ISSUES
• STRATEGIC PLANNING
• REVIEW FRAMEWORK REGULARLY
• ENSURE POLICIES ARE DEVELOPED & IMPLEMENTED
• ENSURE APPROPRIATE MITIGATION IS IMPLEMENTED
• ENSURE CRISIS MANAGEMENT PLAN IS IN PLACE & WORKS
ROLE OF MANAGEMENT

• LEAD BY EXAMPLE
• FLAG RISKS FOR THE BOARD
• PROMOTE RISK MANAGEMENT CULTURE
• DEVELOP RISK MANAGEMENT FRAMEWORK
• MANAGE & MONITOR RISKS
• DEVELOP & IMPLEMENT MITIGATION FOR RISKS
• ENSURE POLICIES ARE IMPLEMENTED
SOME RESOURCES TO HELP

• [www.canadiancharitylaw.ca](http://www.canadiancharitylaw.ca) for Blumberg’s Canadian Charity Legal Checklist
• [https://carters.ca/](https://carters.ca/) for Carter’s legal checklists
• [https://www.cpacanada.ca/search-results?#q=20%20questions](https://www.cpacanada.ca/search-results?#q=20%20questions) for 20 Questions booklets
• [https://www.imaginecanada.ca/en](https://www.imaginecanada.ca/en)
• [https://www.blumbergs.ca/educational-programs/](https://www.blumbergs.ca/educational-programs/) for newsletter & programs
SOME FINAL THOUGHTS

• ALL ORGANIZATIONS TAKE RISKS TO ACHIEVE THEIR MISSION

• ALL ORGANIZATIONS NEED TO HAVE RISK MANAGEMENT IN PLACE – IT IS A KEY GOVERNANCE FUNCTION

• IT IS OFTEN COMMON SENSE AND GOOD PLANNING

• IT IS EVERYONE’S JOB

• START THE JOURNEY
DO MORE FOR THE COMMUNITIES YOU SERVE.

LET US HELP YOU!

Thank you!