STANDARDS
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HB 266:2010
Guide for managing risk in not-for-profit organizations

handbook

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Handbook

Guide for managing risk in not-for-profit organizations

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PREFACE

Purpose of the Handbook

This Handbook was prepared under the direction of Joint Standards Australia/Standards New Zealand Committee OB-007, Risk Management, in accordance with Australian and New Zealand Standard AS/NZS ISO 31000:2009, *Risk management—Principles and guidelines*, to facilitate the effective management of risk in independent not-for-profit, non-profit, and non-government organizations. In this Handbook the acronym, NFP, refers to all of these types of organizations.

Used in conjunction with AS/NZS ISO 31000, this Handbook provides:

a)   A globally accepted framework and language for recognizing and responding to uncertainty that generates risk for the organization.

b)   A systematic and straightforward process for understanding the organization's risks and ensuring that the amount and type of risks it faces are desirable or tolerable.

c)   A practical process and tips on how to integrate and sustain AS/NZS ISO 31000's systematic approach to risk management, including basic tools and templates and an informative case study.

By effectively managing its risks the organization will enhance its ability to sustainably deliver services to, and achieve better outcomes for, its clients, members and the community. AS/NZS ISO 31000 and the Handbook facilitate this by aligning risk management activities to the organization's purpose and objectives and by redirecting and enhancing existing processes so that, progressively, the organization's risks are managed proactively rather than reactively. NFP organizations, large and small, can benefit from this Handbook as the tools and templates are scalable and prepared for use by a broad range of organizations.

Adopted from the International Standard, ISO 31000:2009, *Risk management—Principles and guidelines*, AS/NZS ISO 31000 supersedes AS/NZS 4360:2004, *Risk management*. Organizations using the superseded standard will find AS/NZS ISO 31000 is a logical advancement, expanding on and improving AS/NZS 4360 while retaining the risk management process at the heart of AS/NZS 4360.

ISO 31000:2009 is being referenced in the revision of other ISO standards, such as the quality management series (ISO 9001 etc.). Consequently, it is expected that there will be commonality and consistency in the processes and definitions used in all ISO standards that involve aspects of risk management.

The Not-For-Profit Sector

NFP organizations play an important role in our society, yet there is no universal definition of the sector or an all-encompassing measure of its contribution[1]. This reflects the diverse purpose, funding, reliance on volunteers, size, and structure of organizations that primarily operate for a social or community purpose (rather than the financial gain of its members).

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[1]   Estimates of the size and contribution of the NFP sector include the: Productivity Commission, *Contribution of the Not-for-Profit Sector*, Research Report, Canberra 2010; National Roundtable of Nonprofit Organizations, *The Nonprofit Sector in Australia: A Fact Sheet, 4th Edition,* 2009 http://www.nonprofitroundtable.org.au; and Sanders J, O'Brien M, Tennant M, Sokolowski SW, and Salamon L M, *The New Zealand Non-profit Sector in Comparative Perspective*. Office for the Community and Voluntary Sector, 2008.

In economic terms, NFP organizations contribute between 4%–5% of GDP in Australia and New Zealand and are significant employers[2]. Volunteering and 'in-kind' support are significant in the sector.

This Handbook can be used by the broad reach of independent NFP organizations, including providers of community services (such as health, housing, training, education and research, welfare services, and service clubs); legal and advocacy groups; charities; philanthropic intermediaries; sporting, recreational and cultural clubs; arts groups; international aid organizations; church and religious groups; environmental protection and animal welfare groups as well as groups, representing member-only interests.

Reflecting the diverse nature of the sector, the people that receive services from or that are served by, NFP organizations could be clients, beneficiaries, carers, customers, members or some other group. In this Handbook the terms 'clients' and 'members' refer to the broad group or groups of people that are central to the NFP organization's purpose.

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Grant Purdy, Associate Director Broadleaf Capital International (purdy@broadleaf.com.au).

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Dr. Dale Cooper

Professor Jean Cross

Roger Estall

Michael Parkinson

Chris Peace

Ray D'Angelo

In preparing this Handbook, the authors consulted widely within the sector, canvassing the experience, views and feedback of a range of organizations including:

a)   Small-, medium-, and large-sized organizations.

b)   Board members, Chief Executive Officers (CEOs), Executive/Managing Directors, senior managers, and those charged with managing or facilitating risk management.

c)   Organizations just starting, through to those with more than five years experience in using a formal risk management process.

Accordingly, the authors wish to acknowledge the invaluable contribution, insights and feedback on the Handbook given by the following NFP organizations and people.

Organization	Person	Role
Australia		
Centacare Catholic Family Services	Annie Re	Organizational Improvement Manager
Centacare Catholic Family Services	Tony Newton	Director, Corporate Services

Centre for Multicultural Youth	Carmel Guerra	CEO
Centre for Multicultural Youth	Soo-Lin Quek	Manager, Policy and Research
Kidney Australia	Vin Harink	Chair, Audit and Risk Committee
KU Children's Services	Penny Le Couteur	Chair, Board of Directors
Uniting Care Children, Young People and Families	Rita Perkons	Director, Social Justice, Partnerships and Communication
Vicdeaf	Graeme Kelly	CEO
Vision Australia	Leslie Smith	Manager Compliance and Treasury
New Zealand		
Barnardos	Niamh Lawless	GM, Corporate Services
Barnardos	Ken Parsons	Internal Auditor
Heart Foundation	Tony Duncan	Executive Director
Heart Foundation	Bruce Davis	Finance Manager
Mobility Dogs	Suzanne Crowther	General Manager
Mobility Dogs	Helen Spence	Sponsorship Manager
NZ Federation of Voluntary Welfare Organizations	Tina Reid	Executive Director
Presbyterian Support NZ	Katherine Noble	National Executive Officer
Royal NZ Plunket Society	Florence Trout	National Advisor Quality and Risk
TAS	Howard Lee	Manager Audit and Assurance Services

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0   INTRODUCTION

Organizations, whether private enterprise, public sector, or not-for-profit, face risks that can affect the achievement of their objectives and potentially their very survival. The uncertainty that generates risk for an organization arises because the organization's purpose and objectives (which the organization can control) are pursued against uncertain internal and external influences (which it cannot totally control). Consequently, by understanding the organization's risks, how they are caused and how they could affect it the organization can, if necessary, make changes (treat the risk) so that it is more likely to achieve its purpose and objectives and might even do so faster, more efficiently, and with improved results.

Passion and the 'cause' may be a NFP organization's pulse, but they may not always protect it from unwise decisions, mismanagement, or human fallibility. Equally, finding new and more effective ways to support the organization's clients, members and cause involves taking risk. Accordingly, good governance requires the organization to find the right balance between taking risks on an informed basis, treating undesirable risks and having the confidence that the organization can bear its level of risk in pursuing its purpose and objectives.

For the organization's stakeholders, what matters most is not what happens in the face of uncertainty, but rather how well the organization deals with a change in circumstances, the unthinkable or the unforeseen happening—bad and good. As uncertainty and risk are implicit in all decision making and risk is generated and controlled at all levels of the organization, managing the organization's risks effectively will benefit all of the organization's stakeholders. Specifically, for the organization's key stakeholders, the benefits include:

a)   *Clients*—assured access to professional services and representation that meets their needs, maximizes opportunity, empowerment, and inclusion, and prevents harm.

b)   *Members*—confidence that they belong to an organization that is sustainable, professional, consistently able to meet their needs and objectives, and that does not waste resources.

c)   *Funders*—confidence that they support an organization that is sustainable, professional, can recognize and respond to risk effectively, is consistently able to improve services to, and advocacy for, its clients, members and cause, and that will not waste their contributions.

d)   *Board of directors*—confidence that decisions properly recognize and respond to the organization's risks, that the necessary controls modifying risk and risk treatment plans are in place, that the organization has resilience to disruptive events that might threaten it, and that it systematically learns from its successes and failures.

e)   *Management*—confidence that the organization's risks are clearly understood and are being managed effectively and that decision making in the organization is supported by a risk-aware culture, which anticipates problems before they occur and identifies opportunities early. Assurance that the necessary controls modifying its risks are in place and are effective, and that the organization consistently learns from its successes, failures and near misses. Ability to demonstrate to funders and other stakeholders that the organization's risks are being managed effectively.

f) *Employees, volunteers, contract and casual staff*—confidence that the organization is making a positive difference to its clients, members and cause, that they personally are proactively contributing to this no matter what their role, and reassurance that everybody's wellbeing and safety are being appropriately protected.

AS/NZS ISO 31000 provides a benchmark to maximize the effectiveness of the organization's risk management activities. Using this Handbook to implement AS/NZS ISO 31000's systematic and straightforward approach, the organization can develop and sustain a comprehensive understanding of its risks and the controls modifying those risks, and can ensure that the amount and type of risks it faces are desirable or tolerable.

By effectively managing the risks it faces the organization can guard against poor decision making, complacency and being inadvertently exposed to potentially debilitating consequences of its activities. This can include risks that:

i) Opportunities are missed, underestimated or mismanaged.

ii) Changes in government policy and preferences are not responded to effectively.

iii) Programs and services are not relevant or effective.

iv) New programs or changes to the scope and requirements of existing programs are beyond its core purpose and capability.

v) NFP tax status is lost because of inappropriate activities.

vi) Funding for a major program ceases or a significant amount of revenue is lost.

vii) Staff turnover escalates and its staff recruitment and retention strategies are not effective.

viii) Expenses increase excessively or are underestimated or not properly accounted for in budgets and funding submissions.

ix) Media attention on its clients, members and cause are not responded to immediately and adequately, or are missed altogether.

x) Critical corporate knowledge and key relationships are lost.

xi) Intellectual property is lost or is not adequately protected.

xii) A partner fails, is embroiled in controversy, or becomes strategically aligned with another organization.

xiii) Acts of fraud are not detected.

xiv) There is a serious failure or breach of its duty of care (e.g. actual or alleged sexual misconduct or abuse by an employee or volunteer).

1 MANAGING RISK EFFECTIVELY

1.1 What is risk management?

The major risk for most organizations is that they could fail to achieve their objectives and thereby lose the trust of their stakeholders. For an NFP organization, not achieving the best outcomes for its clients, members and cause, by being deficient in some way, getting something wrong or missing opportunities, ultimately undermines its ability to attract and sustain clients, revenue, volunteers and members; and the organization can fail.

Risk management essentially is a systematic approach to:

a) Understand the organization and its context.

b) Establish processes and systems integrated with existing management systems so that uncertainty and change are managed effectively.