Somalia

Risk Management For NGOs

Risk Management Unit
United Nations Somalia
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This document provides guidance only. NGOs will need to customise this guidance to suit their organisation’s particular needs.
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This document provides guidance only. NGOs will need to customise this guidance to suit their organisation’s particular needs.
1 Glossary

Here are some specialist terms, and specialist uses of common terms, you will encounter in this document:

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptable Level of Risk</td>
<td>The acceptable level of risk reflects the decision by an organisation’s management to accept the risk (likelihood and consequences of a risk). This is also known as the organisation’s risk appetite.</td>
</tr>
<tr>
<td>Communication and Consultation</td>
<td>Continual and iterative processes that an organisation conducts to provide, share or obtain information, and to engage in dialogue with stakeholders regarding the management of risk.</td>
</tr>
<tr>
<td>Consequence</td>
<td>The outcome of an event affecting objectives.</td>
</tr>
<tr>
<td>Control</td>
<td>A measure that modifies (usually, reduces) risk.</td>
</tr>
<tr>
<td>Likelihood</td>
<td>The chance of something happening.</td>
</tr>
<tr>
<td>Residual Risk Level</td>
<td>The risk remaining after risk treatment.</td>
</tr>
<tr>
<td>Risk</td>
<td>The effect of uncertainty on objectives.</td>
</tr>
<tr>
<td>Risk Appetite</td>
<td>The amount and type of risk that an organisation is willing to retain.</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>The overall process of risk identification, risk analysis and risk evaluation.</td>
</tr>
<tr>
<td>Risk Level</td>
<td>The risk rating calculated using likelihood and consequence criteria after considering the existing control environment.</td>
</tr>
<tr>
<td>Risk Management</td>
<td>Coordinated activities undertaken by an organisation to control or reduce risk.</td>
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<tr>
<td>Risk Management Framework</td>
<td>This broadly articulates how risk management is integrated into and aligned with an organisation’s policies, procedures, practices and values.</td>
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<tr>
<td>Risk Management Policy</td>
<td>An organisation’s formal statement of its overall intentions and direction regarding risk management.</td>
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<tr>
<td>Risk Management Process</td>
<td>The systematic application of management policies, procedures and practices to the activities of communicating, consulting, establishing the context, and identifying, analysing, evaluating, treating, monitoring and reviewing risk.</td>
</tr>
<tr>
<td>Risk Matrix</td>
<td>A tool for ranking and displaying risks by identifying ranges for consequence and likelihood.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
<td>-----------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Risk Owner</td>
<td>A person or entity with the accountability and authority to manage a risk.</td>
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<tr>
<td>Risk Register</td>
<td>A record of risks identified and how they are managed.</td>
</tr>
<tr>
<td>Risk Retention</td>
<td>Acceptance of the potential benefit, or burden, of a particular risk.</td>
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<tr>
<td>Risk Tolerance</td>
<td>An organisation’s or stakeholder’s readiness to bear the risk after treatment in order to achieve its objectives.</td>
</tr>
<tr>
<td>Risk Treatment</td>
<td>The process of selecting and implementing measures or ‘treatment options’ to modify risks or their potential consequences.</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>A person or organisation that may affect, be affected by, or perceive themselves to be affected by, a decision or activity.</td>
</tr>
</tbody>
</table>
2 How to Use This Document

Section 1 Provides a glossary specialist terms, and specialist uses of common terms, that you will encounter in this document.

Section 2 Provides a roadmap of the document and how to apply it to your own organisation.

Section 3 Provides an introduction to risk and risk management and why they are important.

Section 4 Provides an overview of the principles which underpin the risk management framework and risk management process.

Section 5 Provides some advice on building a risk management framework that will support the identification, assessment and management of specific risks. These include:

- understanding the different types of risk and organisational attitudes to risk;
- understanding the building blocks of a risk management system (principles, framework, process); and
- developing a Risk Register (a document in which to record risks and how you are managing them).

Section 6 Is the ‘nuts and bolts’ of this document and walks you step-by-step through the risk management process – ie identifying, assessing and managing specific risks. You can use this section to help you understand and start to formulate your own risk framework.

Because every organisation is unique in size, function, operation and charter, you should not simply ‘cut and paste’ from this document into your own risk management policy and framework. You will need to customize what you find here to your organisation’s particular needs. Use this resource in whatever ways will best serve your organisation’s interests, rather than adhere to it rigidly.

Note: throughout this document we discuss the risk management framework/process as it would apply to an organisation as a whole. But it can also be applied to, say, a specific project. The principles and steps are the same, just on a different scale.

This document was developed in accordance with ISO3100. ISO 31000 was published in November 2009, and provides a standard on the implementation of risk management. The purpose of ISO 31000:2009 is to be applicable and adaptable for ‘any public, private or community enterprise, association, group or individual’.1 This standard is intended for guidance, not compliance. A copy of the standard is available from the International Standards Organisation at www.iso.org.

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3 Overview

3.1 Fragile States, Uncertainty and Risk
Fragile states like Somalia\(^2\) by their very nature involve a high degree of uncertainty:

- About the political and security environment;
- About the regulatory environment;
- About supplier / partner capacity and integrity;
- About environmental conditions; and
- About access to communities.

When these especial uncertainties are added to those already present in stable contexts, organisations face an almost impossible challenge to work well. Effective risk management can go a long way to addressing this challenge.

3.2 Who is this document for?
This document is for all those in Non-Government Organisations (NGOs) staff who want to effectively manage their risks and work well in Somalia – executive directors, managers, senior staff and any other relevant staff. It provides a step-by-step approach to help you formulate a risk management framework / policy and identify, assess, monitor and manage risk in your organisation.

3.3 What is risk?
It is common to think of risk as what might go wrong in an organisation. But a more precise definition is ‘the effect of uncertainty on an organisation’s objectives’. Potential risks come and go, or evolve, as an organisation’s internal dynamics change, and as the external environment in which it operates changes. Keeping abreast of the risks that may affect your organisation must therefore be an ongoing activity.

3.4 What is risk management?
Risk management aims firstly at anticipating risks. Then it aims at preventing them from happening or at minimizing their impact if they do happen.

| Risk Management | Is a process of undertaking coordinated activities to control or reduce risk. |

Since responding to risk is intended to help an organisation achieve its objectives, risk management must be integral to all aspects of the organisation including strategic planning, decision-making, operational planning and resource allocation.

A risk management system encompasses three key elements: risk management principles, a risk management framework (which includes policy), and a risk management process – all of which are explained in Sections 4, 5 and 6 of this document.

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\(^2\) Source: Fund For Peace ‘Fragile States Index 2015 - Somalia received the second highest fragility score in 2015 at 114.0 not far behind South Sudan at 114.5
Finally, risk is present at all levels of activity. There are risks that may affect the organisation as a whole such as risks to the organisation’s reputation. There are risks that may affect the health and safety of staff, financial activities, service delivery activities, or risks that affect more than one activity. There are also risks specific to each and every project. What this means is that everyone in an organisation bears some responsibility for managing risk.

3.5 Why do you need to manage risk?
Risk management is good practice. It helps an organisation to make more efficient use of resources, increase performance and minimize harm to staff and beneficiaries.

3.5.1 Organisational and Governance Requirements
Risk management is important for good governance, as well as compliance. By effectively managing the risks it faces, your organisation can guard against poor decision-making, complacency and inadvertent exposure to any potentially damaging consequences of its actions, as well as meet its objectives in delivering services to clients.

In addition, the principles of good governance dictate that those responsible for the management of an organisation have an obligation to protect the interests of its stakeholders. Many stakeholders expect NGOs to manage risks in accordance with good governance principles and practices.

For all these reasons, risk management policies, processes and activities need to be aligned with the other policies, processes and activities in an organisation in order to support the Board or Management Committee and the organisation’s mission, vision and objectives. Alignment of risk management policies to other organisational policies and processes also supports the practice of good governance.

3.5.2 Benefits of Risk Management
As well as contributing to compliance and good governance, effective risk management can contribute to strategic and business planning and the general running (operational activities) of an organisation. It creates confidence that your organisation can deliver the desired outcomes, manage threats to an acceptable degree, and make informed decisions about opportunities.

Some benefits of risk management are that it helps to:

- reduce the likelihood of potentially costly surprises;
- prepare for challenging events and improve overall resilience;
- improve the quality of decision-making at all levels;
- enable effective execution of decisions;
- improve planning processes;
- prioritise resources;
- increase performance;
- establish clear purpose, roles and accountabilities for all staff; and
- improve stakeholder confidence in the organisation.
3.6 **Types of Risk**

Somalia has always been regarded as a high-risk environment for NGOs and these risks have mainly been defined in terms of security. Over the years, significant time and resources have been invested in trying to reduce risks for staff and programmes. More recently, a number of high profile reports of fraud and diversion from aid programmes in Somalia have resulted in diversification of risk focus to include financial, programmatic and institutional risks. Risk in Somalia has been commonly categorised into three broad inter-connected types:

1. **Contextual**: risks which are external and often outside of the control of NGOs (e.g. natural disasters, terrorist activity, political instability, lack of public infrastructure).

2. **Programmatic**: risks which are related to how the project of programme is designed and implemented, which may result in not meeting the needs beneficiaries and/or potentially doing harm (e.g. diversion, lack of capacity, poor service delivery).

3. **Organisational**: risks which are internal to the organisation, and which may affect the security and safety of staff an/or the reputation of the organisation (e.g. financial and human resource management systems/processes).

3.7 **Risk Appetite**

Risk appetite is the level of risk an organisation is prepared to accept or pursue. In general, an organisation is more likely to have an appetite for low level risks than for high level risks. There may be exceptions – i.e. a high level risk, where the potential benefits of which may warrant ‘taking the risk’ – but these are for each organisation to consider carefully.

Here’s an example of risk appetite. Consider a risk such as ‘failure to adequately resource a new service program, resulting in potential impact on objectives and reputation’. It may be that the ‘new service program’ is a desirable outcome for the organisation but requires additional resources. If the organisation cannot resource it adequately, the program may not be delivered and the organisation’s objectives may not be achieved. The outcome would be undesirable but not severe, so attempting to deliver the program may be ‘worth the risk’. The organisation would be said to have an appetite for this risk if it chooses to proceed with implementation under such circumstances.

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3 Source: Assessment of Implementation of the Somalia NGO Consortium’s “Guidelines for Risk Management & Accountability for NGOs operating in Somalia/Somaliland” February 2015
3.8 Building Blocks of the Risk Management System

The figure below illustrates the main building blocks of risk management – Principles, Framework, and Process – and how they fit together. These building blocks are sometimes called the risk management architecture.

The principles underpin the framework and process and are intended to help increase understanding and recognition of the vital role played by risk management throughout an organisation. There is also a circular, iterative relationship between Process and Framework. The Framework will inform how you undertake the Process. The results of undertaking the Process will feed back into, and may modify, the Framework. This will become clearer as you read through the document.
4 Risk Management Principles

4.1 Overview
As indicated earlier, the principles underpin the framework and process and are intended to help increase understanding and recognition of the vital role played by risk management throughout an organisation.

These principles are that risk management:
- creates and protects value;
- is an integral part of all organisational processes;
- is part of decision making;
- explicitly addresses uncertainty;
- is systemic, structured and timely;
- is based on the best available information;
- is tailored to the organisation’s requirements;
- takes human and cultural factors into account;
- is transparent and inclusive;
- is dynamic, iterative and responsive to change; and
- facilitates continual improvement of the organisation.

4.2 Creates and Protects Value
‘Creating and Protecting Value’ means risk management should demonstrably contribute to the achievement of your organisation’s objectives and to the improvement of performance in all areas of activity. In contrast, if risk management is done purely for compliance reasons (as often occurs in organisations), then value is ‘created’ and/or ‘protected’ for regulatory/stakeholder obligations but not for decision-making, resource allocation, and so on.

4.3 Integral Part of Processes
Make risk management part of every process at every level and a responsibility of every manager.
4.4 Part of Decision Making
Make risk management part of decision making at all levels. Use risk management to make informed choices and to prioritize actions.

4.5 Addresses Uncertainty
Use risk management to: address the uncertainty that you face, identify and define the nature and type of uncertainties that your organisation must deal with, and to figure out what you can do to address your organisation’s uncertainties.

4.6 Systematic, Structured & Timely
Make sure that your organisation’s approach to risk management is systematic, structured, and timely. Make sure that your approach contributes to efficiency and generates reliable results.

4.7 Based on Best Available Information
Make sure that the inputs you use to manage risk are based on the best available information sources. Make sure that decision makers understand and consider the limitations and shortcomings of the data they use to manage risk.

4.8 Tailored to Organisation
Make sure that your organisation’s approach to risk management is aligned with its unique internal and external context and its risk profile.

4.9 Takes Human & Cultural Factors into Account
Make sure that your approach to risk management recognizes and considers the human and cultural factors that can influence the achievement of your organisation’s objectives. Consider how human capabilities, perceptions and intentions can facilitate or hinder the achievement of your objectives.

4.10 Transparent & Inclusive
Make sure that your approach to risk management is transparent, open, visible, and accessible. Make sure that your approach to risk management is inclusive and involves your organisation’s stakeholders and decision makers from all parts of your organisation.

4.11 Dynamic, Iterative & Responsive
Make sure that your organisation’s approach to risk management: is dynamic and responsive; continually senses change and responds to it; and is ongoing. Repeat your risk management process whenever and wherever objectives need to be achieved.

4.12 Facilitates Continual Improvement
Use risk management to improve all aspects of your organisation. Develop strategies to improve your approach to risk management.
5 Developing a Risk Management Framework

5.1 Overview of a Risk Management Framework

The Risk Management Framework describes how risk management is integrated into the organisation and aligned with every aspect of your organisation’s:

- governance, strategy and planning;
- management, work plans and activities;
- internal and external reporting processes and communication mechanisms; and
- policies, procedures, values and culture.

It clarifies the accountabilities, the reporting and escalation processes, as well as the communication and consultation mechanisms for internal and external stakeholders.

It is advisable to have a Framework document. Larger organisations may have an extensive Framework document. Smaller organisations may have a briefer document simply stating the understanding of the organisation’s broad approach to risk management. Either way, the steps detailed below should be taken into consideration.

5.2 Developing A Risk Management Framework

The steps for developing a Risk Management Framework are as follows:

- consider the Risk Management Principles;
- understand your organisation and its context (both internal and external);
- develop a Risk Management Policy (see Annex A for an example);
- establish accountabilities (who is responsible for what);
- integrate risk management into your organisation’s processes, culture and values,
- involve your staff so that they have ownership and buy-in which are essential to creating the culture;
- allocate sufficient time and resources; and
- establish internal and external communication and reporting mechanisms (with management and staff and partners, donors and importantly beneficiaries).
You will notice some overlap between these steps and the steps involved in the Risk Management Process. As mentioned earlier, that’s because there is a circular, iterative relationship between Process and Framework: each informs the other.

5.3 Consider the Risk Management Principles
First, consider how some or all of the 11 Principles might inform the design, implementation and periodic review of your Framework. If you are working within an existing Framework, you can use the Principles as a benchmark against which to measure how well you do risk management and identify areas for improvement.

5.4 Understand your organisation and its context
In establishing the Framework, you need to take into account the social, cultural, financial, legal and regulatory environment in which your organisation operates. You will need to consider your organisation’s mission or purpose, its management style, its size, and the simplicity or complexity of its processes and practices.

5.5 Risk Management Policy

Your organisation’s Risk Management Policy will be a high-level statement of its intentions and directions as to how risk will be managed.

The Policy should be established by the Board and operationalised by the Executive Director or equivalent. It should be communicated to employees and volunteers, as appropriate, to ensure that all risk management processes and practices are carried out in accordance with it.

The Policy should generally be reviewed every year by the Board’s Risk Management Committee or relevant officer to ensure it meets the organisation’s evolving needs and circumstances.

An example of a Risk Management Policy document is given Annex A. This is for guidance only; you will need to tailor it to suit your organisation.
The Policy should include statements as to your organisation’s risk tolerance and risk appetite. These are policy positions that help the organisation decide what actions to take, if any, for risks assessed at different levels, i.e. extreme, high, medium or low.

### 5.6 Design

#### 5.6.1 Establish accountabilities

To make risk management work, there needs to be accountability for integrating risk management into the organisation and for managing specific risks. This means making sure that these risks are assigned to specific people who are then responsible for or ‘own’ these risks.

Typically, the Board delegates overall responsibility for risk management to the Executive Director, or a position of similar seniority. The tasks of managing the Framework and undertaking the Risk Management Process (identifying, assessing and treating risks) are generally carried out by a senior manager – Coordinator, Finance Officer or Senior Administration Officer – who generally has a good understanding of all the organisational processes. In some organisations, the title of the role may be ‘Risk Management Coordinator’ or ‘Risk Manager’. Only in very large organisations is there a dedicated ‘Chief Risk Officer’ role.

To achieve accountability for specific risks, it is useful to assign risks to nominated risk owners who are then accountable for managing them. Risk owners are usually senior managers or officers who have the authority to allocate resources to develop risk treatment actions and plans to manage risks to acceptable levels. These officers could include your programme/project managers.

#### 5.6.2 Integrate risk management into organisation processes, culture and values

Aligning how risk management is carried out with how your organisation is managed and operated, secures a greater level of engagement from management and staff when it comes to specific risk management activities. For example, you should try to use risk management to inform strategic and operational planning. You could also use risk management to help ensure that the objectives of those plans are realized. Where ever possible you should also make the effort to build in risk management to existing processes rather than making it a separate activity.
5.6.3 **Allocate sufficient time and resources**

All risk management activities require time and resources — limited commodities in all organisations. As part of your Framework, therefore, you need to determine what time and resources you can allocate to risk management activities in order to achieve the organisation’s objectives and meet stakeholder requirements.

Initial activities such as developing the Risk Management Policy, Framework and Risk Register will take some time and effort. Ongoing activities such as risk assessments and risk reviews should be less demanding and so should form a normal part of each manager’s role within the organisation.

You might also build into your Framework a timeframe for implementing various risk management activities and goals.

5.6.4 **Establish internal and external communication and reporting mechanisms**

Risk management activities need to be communicated and/or reported to relevant internal and external stakeholders. Much of this can be done through your organisation’s existing communication and reporting mechanisms, so you should factor these into the Framework. You may find that additional risk-focused mechanisms are required to keep all relevant officers, employees, volunteers and other stakeholders informed of risk management activities. If so, you will need to identify and develop such mechanisms as part of the Framework.

5.6.5 **Develop guidance to support the analysis and evaluation of risks**

5.6.5.1 **Overview**

Your managers and staff will require guidance to effectively /consistently analyse and evaluate risks that they identify during the risk management process. As a starting point, you will need to make decisions and provide guidance on the following:

- Identify categories of risk
- How to measure the ‘likelihood’ of a risk occurring?
- How to measure the ‘consequences’ of a risk should it occur?
- How to measure the ‘overall level’ of risk?
- Decisions regarding escalation, retention and treatment
- How to record risk information?

You may wish to workshop each of these steps. However, you approach it, the risk categories; and levels of consequence, likelihood, and overall risk will need to reflect:

- the organisation’s size, culture, values, objectives and activities;
- the organisation’s overarching risk assessment criteria; and
- any risk management controls already in place.

5.6.5.2 **Identify Categories of Risk**

Before your organisation attempt to identify specific risks, it helps to identify the categories (or broad areas) in which risks may occur. These categories will guide the more detailed work of identifying specific risks.
You may want to start by focusing on the three broad areas of risk faced by NGOs:

1. Contextual: factors which are external and often outside of the control of NGOs.

2. Programmatic: the risk of not meeting programme objectives, not meeting the needs beneficiaries and potentially doing harm.

3. Organisational: risks affecting the security and safety of staff and NGO reputations.

The following table provides examples of categories in each of these broad areas:

<table>
<thead>
<tr>
<th>Contextual</th>
<th>Programmatic</th>
<th>Organisational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural disasters</td>
<td>Diversion</td>
<td>High turnover of staff</td>
</tr>
<tr>
<td>Terrorist activity</td>
<td>Poor service delivery</td>
<td>Financial management</td>
</tr>
<tr>
<td>Political instability</td>
<td>Non-compliance with program</td>
<td>Human resource management</td>
</tr>
<tr>
<td>Lack of public infrastructure</td>
<td>and/or quality control processes</td>
<td>Lack of capacity</td>
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<tr>
<td>Corruption</td>
<td></td>
<td>Fraud</td>
</tr>
<tr>
<td>Diversion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor service delivery</td>
<td></td>
<td></td>
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<tr>
<td>and/or quality control processes</td>
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</tr>
<tr>
<td>Human resource management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of capacity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This is a guide only. You will need to develop risk categories specific to your organisation. You can also choose whether to arrange your categories alphabetically, in order of importance, or in some other way.

5.6.5.3 How to measure the ‘likelihood’ of a risk occurring?

There are three key steps in determining how your organisation wants to measure likelihood:

- Step 1 – Choose a scale
- Step 2 – Label each point on the scale
- Step 3 – Provide more detailed descriptive examples for each point on the scale

Step 1 Choose a scale

You can choose a scale with any number of points. In general, scales have 3 – 7 points from the lowest to the highest degree of likelihood. The number of points on your scale will depend on the requirements of your organisation. Does your organisation want to keep things simple? Do you need more points to properly capture differences in likelihood? You may also want to consider whether you want to have a neutral position? (ie an odd number scale) or Do you want to force people to make a decision? (ie even number scale).

Step 2 Label each point on the scale

Once you have chosen a scale, you then need to label each point on the scale in a way that is relevant to the risk and easily understood by your organisation’s managers and staff. Examples of labels for five point scales are provided in the table below.

<table>
<thead>
<tr>
<th>Example 1</th>
<th>Example 2</th>
<th>Example 3</th>
<th>Example 4</th>
<th>Example 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Likely</td>
<td>Very probable</td>
<td>Almost Certain</td>
<td>Almost Certain</td>
<td>Almost Certain</td>
</tr>
<tr>
<td>Likely</td>
<td>Probable</td>
<td>Likely</td>
<td>Likely</td>
<td>Probable</td>
</tr>
<tr>
<td>Undecided</td>
<td>Neutral</td>
<td>Even Chance</td>
<td>Possible</td>
<td>Even Chance</td>
</tr>
<tr>
<td>Unlikely</td>
<td>Improbable</td>
<td>Unlikely</td>
<td>Unlikely</td>
<td>Improbable</td>
</tr>
<tr>
<td>Very Unlikely</td>
<td>Very improbable</td>
<td>Remote Chance</td>
<td>Rare</td>
<td>Remote Chance</td>
</tr>
</tbody>
</table>

Step 3 Provide more detailed descriptive examples for each point on the scale
Once you have chosen simple labels for each of the points on your scale, you need to provide a more detailed description / guidance on what each of these labels mean. The table below provides some examples.

<table>
<thead>
<tr>
<th>Likelihood Level</th>
<th>Description Examples</th>
<th>Probability Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remote Chance</td>
<td>• May occur only in exceptional circumstances.</td>
<td>&lt;20%</td>
</tr>
<tr>
<td></td>
<td>• Typical frequency once every 500 years or more.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;0.005% (1 in 20,000 chance)</td>
<td></td>
</tr>
<tr>
<td>Improbable</td>
<td>• It is not expected to occur.</td>
<td>&gt;20% - 40%</td>
</tr>
<tr>
<td></td>
<td>• No recorded incidents or evidence.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Little opportunity, reason or means to occur.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Typical frequency once every 100 years.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;0.05% (1 in 2,000 chance)</td>
<td></td>
</tr>
<tr>
<td>Possible</td>
<td>• May occur at some time.</td>
<td>&gt;40% - 60%</td>
</tr>
<tr>
<td></td>
<td>• Few or infrequent recorded incidents or evidence.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Some opportunity, reason or means to occur.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Typical frequency once every 20 years.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;0.5% (1 in 200 chance)</td>
<td></td>
</tr>
<tr>
<td>Probable</td>
<td>• Likely to occur/recur.</td>
<td>&gt;60% - 80%</td>
</tr>
<tr>
<td></td>
<td>• Regular recorded incidents and strong evidence.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Will probably occur in many circumstances.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Typical frequency once 5/7 years.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;5% (1 in 20 chance)</td>
<td></td>
</tr>
<tr>
<td>Almost Certain</td>
<td>• Likely to occur/recur.</td>
<td>&gt;80% - 100%</td>
</tr>
<tr>
<td></td>
<td>• High level of recorded incidents and strong evidence.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Typical frequency every 5 years or less.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;50% (1 in 2 chance)</td>
<td></td>
</tr>
</tbody>
</table>

This is a guide only. You will need to define risk likelihood criteria specific to your organisation.

5.6.5.4 How to measure the ‘consequences’ of a risk should it occur?
There are three key steps in determining how your organisation wants to measure consequence:

- Step 1 – Choose a scale
- Step 2 – Label each point on the scale
- Step 3 – Provide more detailed descriptive examples for each point on the scale

Step 1 Choose a scale

You can choose a scale with any number of points. In general, scales have 3 – 7 points from the lowest to the highest degree of likelihood. The number of points on your scale will depend on the requirements of your organisation. Does your organisation want to keep things simple? Do you need more points to properly capture differences in consequence? You may also want to consider whether you want to have a neutral position? (ie an odd number scale) or Do you want to force people to make a decision? (ie and even number scale).
Step 2 Label each point on the scale

Once you have chosen a scale, you then need to label each point on the scale in a way that is relevant to the risk and easily understood by your organisation’s managers and staff. Examples of labels for five point scales are provided in the table below.

<table>
<thead>
<tr>
<th>Example 1</th>
<th>Example 2</th>
<th>Example 3</th>
<th>Example 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insignificant</td>
<td>Minor</td>
<td>Insignificant</td>
<td>Insignificant</td>
</tr>
<tr>
<td>Minor</td>
<td>Moderate</td>
<td>Minor</td>
<td>Marginal</td>
</tr>
<tr>
<td>Moderate</td>
<td>Serious</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Significant</td>
<td>Severe</td>
<td>Major</td>
<td>Critical</td>
</tr>
<tr>
<td>Catastrophic</td>
<td>Critical</td>
<td>Critical</td>
<td>Catastrophic</td>
</tr>
</tbody>
</table>

Step 3 Provide more detailed descriptive examples for each point on the scale

Once you have chosen simple labels for each of the points on your scale, you need to provide a more detailed description / guidance on what each of these labels mean. This task needs to be done for each category of risk.

The following table provide examples for two categories.

<table>
<thead>
<tr>
<th>Consequence Level</th>
<th>Health &amp; Safety</th>
<th>Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insignificant</td>
<td>Minor incident not requiring first aid</td>
<td>Minor local adverse public attention or complaints</td>
</tr>
<tr>
<td>Minor</td>
<td>First aid treatment required</td>
<td>Adverse media attention and/or heightened concern of local community</td>
</tr>
<tr>
<td>Moderate</td>
<td>Significant but reversible disability requiring hospital visit</td>
<td>Heightened and/or significant adverse media attention</td>
</tr>
<tr>
<td>Major</td>
<td>Series of significant but reversible disabilities requiring hospitalisation</td>
<td>Serious public or media outcry (local coverage)</td>
</tr>
<tr>
<td>Critical</td>
<td>Fatality and/or severe irreversible disability (&gt;30%) to one or more persons or permanent disabling injury or disabling illness to one or more person</td>
<td>Ongoing serious public or media outcry (state or national coverage)</td>
</tr>
</tbody>
</table>

This is a guide only, drawing on common examples. You will need to define risk consequence criteria specific to your organisation.
5.6.5.5 **How to measure the ‘overall level’ of risk?**

In order to assess the overall level of risk your organisation will need to develop a risk matrix (see the example provided below). Your organisation’s risk matrix should be constructed using the levels of likelihood and consequence developed in the previous steps.

The overall level of risk is obtained from the combination of likelihood and consequence and increases from its lowest point in the bottom left hand corner to its highest point in the top right hand corner.

Once you have a basis matrix like the one above, you need to color each square based on your organisation’s appetite for risk (see example below).

If your organisation has a low appetite for risk you might color more of your matrix red (requiring senior manager attention). If your organisation has a higher appetite for risk you might color your matrix differently.
This is a guide only. You will need to develop a risk matrix to suit your organisation. As noted above, small organisations may need only three levels of consequence: Major, Moderate and Minor.

5.6.5.6 **Decisions Regarding Escalation, Retention and Treatment**

Managers and staff also need guidance on what to do once they have assessed the overall level of risk. You will need to develop guidelines for the actions to be taken for each risk level. Actions may range from risk retention (i.e. treatment and monitoring at current management level) to escalation. The table below provides examples ‘Escalation & Retention Guidelines’ and ‘Treatment Guidelines’.

**Example of Escalation and Retention Guidelines**

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Treatment Guidelines</th>
<th>Escalation And Retention Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extreme</td>
<td>Immediate action required to actively manage risk and limit exposure</td>
<td>Escalate to the Board, risks generally not accepted or retained</td>
</tr>
<tr>
<td>High</td>
<td>Cost/benefit analysis required to assess extent to which risk should be treated - monitor to ensure risk does not adversely change over time</td>
<td>Escalate to Head of Agency, risks generally not accepted or retained</td>
</tr>
<tr>
<td>Medium</td>
<td>Constant/regular monitoring required to ensure risk exposure is managed effectively, disruptions minimised and outcomes monitored</td>
<td>Escalate to relevant senior officer or senior management level, specify risk management actions, risks may generally be retained and managed at operational level</td>
</tr>
<tr>
<td>Low</td>
<td>Effectively manage through routine procedures and appropriate internal controls</td>
<td>Monitor and manage at the relevant officer, or operational level, risks generally retained</td>
</tr>
</tbody>
</table>

This is a guide only. You will need to develop guidelines to suit the structure of your organisation and the relevant levels of responsibility as identified by your own organisation.

5.6.5.7 **How to record risk information?**

A Risk Register is the document containing the results of your risk analysis and your risk response planning. The whole Risk Management Process will generate a lot of important information. A Risk Register will help to document this information systematically and coherently. A risk register is also a good way for you to keep track of the risks you identify and record the controls you put in place to manage them.

An example of a completed Risk Register is shown on the following page (column by column). You don’t need to understand the purpose of all the columns yet. Your understanding will increase as you work through each step of the risk management process in the next section.

Remember that the following example of a risk register is a guide only.
## Example of Risk Register

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Number</td>
<td>Risk Category</td>
<td>Risk Description</td>
<td>Controls Currently in Place</td>
</tr>
<tr>
<td>1</td>
<td>Compliance</td>
<td>Failure to adequately report to donor resulting in potential loss of trust</td>
<td>Governance framework and Reporting Policy / Procedures</td>
</tr>
<tr>
<td>2</td>
<td>Health &amp; Safety</td>
<td>Failure of staff to follow procedures resulting in potential injuries</td>
<td>Health &amp; Safety policies, procedures, training and internal reviews</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column 5</th>
<th>Column 6</th>
<th>Column 7</th>
<th>Column 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consequence</td>
<td>Likelihood</td>
<td>Risk Level</td>
<td>Risk Owner</td>
</tr>
<tr>
<td>Major</td>
<td>Possible</td>
<td>High</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Moderate</td>
<td>Unlikely</td>
<td>Medium</td>
<td>Health Officer</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column 9</th>
<th>Column 10</th>
<th>Column 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment No</td>
<td>Risks Treated</td>
<td>Treatment Plan (Refer Detailed Plan)</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>Review and strengthen the reporting system and include in audit process</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>Conduct an audit of health &amp; safety procedures / practice and implement any improvements that may be required</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Column 12</th>
<th>Column 13</th>
<th>Column 14</th>
<th>Column 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residual Consequence</td>
<td>Residual Likelihood</td>
<td>Residual Risk Level</td>
<td>Additional Action</td>
</tr>
<tr>
<td>Major</td>
<td>Unlikely</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Minor</td>
<td>Insignificant</td>
<td>Low</td>
<td>Report on monthly accident and injury trends</td>
</tr>
</tbody>
</table>

Note: The risks are re-assessed after the risk treatment plans are implemented.

You can create a simple Risk Register manually using Word or Excel. Most people prefer to use Excel as you can add many columns and you can sort information (if required).

There are of course customised risk management tools and specialised risk management software available, if you wish to invest in them. However, in most cases a simple record of the risk information will suffice.

A checklist of questions to ask yourselves when creating a Risk Register is shown in the table on the following page.
The following checklist has been prepared to assist in the development of your Risk Register. It contains key questions to be asked, and shows how various components of the Risk Register link together.

### Checklist for Developing the Risk Register

This document provides guidance only. NGOs will need to customise this guidance to suit their organisation’s particular needs.
5.7 Implement

Building Blocks of Risk Management System

Risk Management Framework

5.7.1 Project Plan

As you can tell from reading this document so far, there is a lot to be done in order to effectively implement risk management. It may seem like a lot to take on but if you break it into smaller chunks and manage it like a project you will be successful. The following figure represents some of the steps you may want to consider in developing a project plan for implementing risk management in your organisation.
5.7.2 Risk Management Unit (RMU) Support

NGO managers and staff can access RMU assistance and support by sending an email to ngoenquiries.rmu.so@one.un.org. RMU also provides ‘class based’ and ‘online’ risk management training.

RMU Class-Based Training

The RMU provides a class-based ‘Introduction to Risk Management’ course that includes approximately 20 participants and takes approximately 1 day.

The purpose of this course is to provide a basic introduction to risk management using the ISO 31000 Risk Management Standard.

NGO’s interested in attending this training must complete a training request form and send it to ngoenquiries.rmu.so@one.un.org. The requesting NGO will bear the logistics related cost of trainees. The RMU will provide facilitators and all training material.

Training is demand driven and will therefore be scheduled when there is sufficient interest.

RMU On-Line Training

The RMU has also introduced online risk management training. This is a self-paced online version of RMU’s class-based course. The training has 5 modules and there is a quiz at the end of each module and a final exam at the end of the course. A personal certificate will be issued to each participant upon successful completion.

NGO staff interested in this online training should contact their respective cluster or the NGO Consortium.
5.8 Monitor & Review

### General
Risk management must be responsive to change – both within the organisation and in the external environment. Therefore, the activities of monitoring and reviewing must be ongoing, and are integral to every step in the Risk Management Process.

### Establish Monitoring Mechanisms
By monitoring risks, controls and risk treatment plans, you can ensure that risks are being managed in accordance with your organisation’s Risk Management Policy and Framework. You can also determine the effectiveness (impacts, benefits and costs) of your risk management strategies. Monitoring is therefore part of the continual improvement process and will enhance organisational value.

### Establish Review and Reporting Mechanisms
As well as conducting ongoing monitoring activities, we recommend you set up formal review and reporting mechanisms. These mechanisms are a requirement of good governance, provide the management team with regular and up-to-date information on risks, risk treatment plans and any issues arising, and assure the Board that risks are being managed in line with the Risk Management Policy and Framework.

Formal review and reporting mechanisms would look something like this:

- On a monthly or quarterly basis (or whatever the Board meeting cycle is), report to the Board with an update on the Risk Register and risk treatment plans (particularly for ‘extreme’ and ‘high’ risks).
- On a monthly basis (or whatever the management/senior staff meeting cycle is), review risks and risk treatment plans.
5.9 **Continual Improvement**

Building Blocks of Risk Management System

- Framework for managing risk
- Process for managing risk
- Principles for managing risk

Risk Management Framework

- Design
- Policy
- Implement
- Monitor & Review

5.9.1 **Overview**

As mentioned earlier, there is a circular, iterative relationship between Process and Framework: each informs the other. This means the framework can be adjusted/improved based on experience gained in applying the risk management process. In addition, the risk management process can by adjusted/improved based on reviews/improvements of the framework.

5.9.2 **Monitoring and Review**

Monitoring and review of the framework and application of the risk management process will be one of your main sources for the regular identification of potential gaps/improvements that need to be made.

5.9.3 **Application of the Risk Management Process**

The ongoing application of the risk management process is also likely to reveal aspects of the framework/design that need to be adjusted/improved (e.g., risks that don’t fit neatly into a category or difficulties in assessing likelihood/consequence). In these cases, adjustments/improvements should be made to the framework/design.
6  Risk Management Process

6.1 Overview of The Risk Management Process

Broadly, the Risk Management Process is the whole set of activities you carry out to identify, assess, manage and monitor any risks to which your organisation may be exposed. The diagram below outlines the main steps.

Each of the steps is discussed in turn in the following pages. As you work through these steps, you will generate information that can be entered into your Risk Register.

Note that ‘Communication and Consultation’ and ‘Monitor and review’ are ongoing processes conducted as part of every step. They are discussed at the end of Part C.
6.2 Establishing the Context

6.2.1 Overview
The purpose of this step is to determine the focus/scope for all risk management activities. This includes both the internal and external environments in which risks may occur: strategic, operational, financial, competitive, stakeholder, social, cultural and legal.

6.2.2 Confirm Organisational Objectives
Because risk is ‘the effect of uncertainty on objectives’, you cannot begin to assess risk until you know exactly what your organisation’s objectives are. The first step is to confirm these objectives. They will have been established as part of your business planning or organisational planning processes.

**Examples of organisational objectives**

- Achieve ‘A’ service outcomes by the end of the year.
- Increase funding from the UN to ‘B’ by year end.
- Increase funding from donors to ‘C’ by year end.
- Manage staff turnover rates to ‘D’ per annum.
- Reduce client complaints (or adverse outcomes) by ‘E’ by the end of the year.

Importantly, objectives may change from year to year as the organisation evolves. They may also change in response to developments and opportunities in the external operating environment. These objectives will help to provide focus in the next step of the process where you will be identifying risks that may have a negative impact on the objectives.

6.2.3 Identify Stakeholders
Part of the context for risk is stakeholders – those with whom your organisation consults, communicates and interacts.

| Stakeholder | A person or organisation that may affect, be affected by, or perceive themselves to be affected by, a decision or activity. |

The table on the following page provides a list of typical NGO stakeholders.
This document provides guidance only. NGOs will need to customise this guidance to suit their organisation’s particular needs.

<table>
<thead>
<tr>
<th>Typical NGO Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board members</td>
</tr>
<tr>
<td>Staff members</td>
</tr>
<tr>
<td>Volunteers</td>
</tr>
<tr>
<td>Clients / Beneficiaries</td>
</tr>
<tr>
<td>Suppliers</td>
</tr>
<tr>
<td>Funders</td>
</tr>
<tr>
<td>Partners</td>
</tr>
<tr>
<td>Donors</td>
</tr>
<tr>
<td>Government agencies</td>
</tr>
<tr>
<td>Community members and representatives</td>
</tr>
<tr>
<td>Associations</td>
</tr>
</tbody>
</table>

Developing a list of stakeholders generally assists in:

- identifying those who will need to be involved in the identification, analysis, evaluation and treatment of risks;
- determining what risk information is communicated to whom, and who should be consulted on which risk issues; and
- informing your initial and on-going consultation and communication processes.
6.3 Risk Identification

### 6.3.1 Overview

The purpose of this step is to identify all of the risks your organisation may be exposed to or that your activity may pose to others. This step includes the identification of sources and causes of risks, their potential consequences and areas of impact, and any risk management controls already in place.

As you work through this step, gathering information, enter it into your Risk Register (developed as part of your Risk Management Framework). By the end, you should have a comprehensive list of risks and controls.

It is important that all potential risks are identified in this step. Any risk overlooked here will not be captured in the subsequent analysis and evaluation stages.

There are three tasks in this step:

- Identify categories of risk
- Identify risks
- Identify existing risk management controls

### 6.3.2 Identify Risks

As a starting point, you should focus on the identification of risks that could have a negative impact on the objectives of the activity you are focusing on. It may also help to explore the three broad categories of risk that NGOs face;

1. Contextual: risks which are external and often outside of the control of NGOs (e.g., natural disasters, terrorist activity, political instability, lack of public infrastructure).

2. Programmatic: risks which are related to how the project of programme is designed and implemented, which may result in not meeting the needs beneficiaries and/or potentially doing harm (e.g., diversion, lack of capacity, poor service delivery).

3. Organisational: risks which are internal to the organisation, and which may affect the security and safety of staff and/or the reputation of the organisation (e.g., financial and human resource management systems/processes).

You may also want to drill further down in these broad categories to the specific risk categories developed as part of your framework.
Once you have identified which categories of risk might have an impact on your activity, you can ‘zoom in’ to identify specific risks within each category. You’ll end up with something like the list outlined in the table below, which you can enter in the Risk Description column in your Risk Register.

### Examples of Risk Descriptions

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance / statutory</td>
<td>Inadequate compliance systems in place which may result in a loss of donor trust</td>
</tr>
<tr>
<td>Legal / commercial</td>
<td>Breach of contract resulting in potential fines or litigation</td>
</tr>
<tr>
<td>Political / economic</td>
<td>Changes in the political landscape resulting in possible loss of funding</td>
</tr>
<tr>
<td>Financial / funding</td>
<td>Failure to effectively manage the financial resources of the organisation which may result in financial loss</td>
</tr>
<tr>
<td>Management</td>
<td>Poor management systems resulting in duplication and potential loss of productivity</td>
</tr>
<tr>
<td>Operational</td>
<td>Disruption to day-to-day activities due to systems or process failure resulting in potential loss of productivity</td>
</tr>
<tr>
<td>Service delivery</td>
<td>Reduced quality of service delivery resulting in potential loss of reputation</td>
</tr>
<tr>
<td>Work Health and Safety</td>
<td>Failure of staff to follow procedures resulting in potential injury and health and safety incident</td>
</tr>
<tr>
<td>Human resources</td>
<td>Inability to adequately resource programs with possible program delays and loss of reputation</td>
</tr>
<tr>
<td>Stakeholders (clients / suppliers)</td>
<td>Financial failure of key supplier resulting in potential impact to delivery of services</td>
</tr>
<tr>
<td>IT / information management</td>
<td>Loss of digital records through inadequate IT systems resulting in potential loss of reputation and/or loss of productivity</td>
</tr>
<tr>
<td>Security</td>
<td>Breach of security due to failure to follow procedures resulting in potential theft/or loss of assets</td>
</tr>
<tr>
<td>Reputational</td>
<td>Adverse media attention and/or heightened concern of local community</td>
</tr>
</tbody>
</table>

You don’t need to ‘fill’ each category with risks. Some categories might be empty. Also, the number of risks in a category is likely to change over time.
6.3.3 How to Identify Risks

There are various ways your organisation may wish to approach this. For example:

- by conducting one-on-one interviews with the relevant managers and staff across the organisation; and
- by running workshops with the relevant managers and staff, facilitated by the Risk Management Coordinator (or relevant officer).

Note: It is important to include front line staff members as they may have more / different knowledge of functions than managers who may be more remote from functions.

Interviews

If the interview technique is preferred, consider using a Risk Identification Form to record the information elicited (see example in table below). Make sure the interviewees include the people responsible for organisational processes and outcomes in each of the identified risk categories and send forms beforehand to allow interviewees to consider all risks.

![Example of Risk Identification Form](image)

**Workshops**

If the workshop approach is preferred, use the identified risk categories as a framework for discussion. Working through your list of risk categories in order will help discipline the discussion and ensure nothing is overlooked.

Choose an approach (or approaches) to identifying risks that best suits your organisation. Interviews and workshops are not the only possibilities.
Using the ‘Cause-Effect’ Technique

There are also numerous techniques to help identify risks. A common one is the cause-effect technique. This involves two related questions:

- What could go wrong in this part of the organisation? (potential effect)
- Why might it happen? (potential cause)

Bear in mind that a ‘cause’ may comprise several contributing factors. Identifying the various contributing factors may provide further insights into other risks and their flow-on effects.

Past Occurrences and Trends

It is also worthwhile reviewing any past occurrences and trends.

6.3.4 How to Describe Risks (‘Risk Statements’)

A risk, by definition, is a potential for something to happen; a possibility not an actuality. Any event, action or situation that is occurring, is therefore not a risk but a known condition. Consequently, the language you use to describe risks should express this element of potentiality or uncertainty. Risk statements should use words like may, might, could. A risk statement that says something will occur, is not describing a risk at all.

Examples of acceptable risk statements

- ‘Failure to effectively manage the organisation’s financial resources, which may lead to financial loss’
- ‘Inadequate compliance systems in place, possibly resulting in a loss of donor trust’
- ‘Inability to adequately resource programs, with potential impact on reputation’
- ‘Failure to effectively manage the organisation’s financial resources, which may lead to financial loss’

6.3.5 Identify Existing Risk Management Controls

Often an organisation will already have in place operational controls or measures that help manage risk. It is important to identify them. This is because you will generally take such controls into account when you come to evaluate risks. For example, a potential Work, Health and Safety (WHS) hazard will present a lower level of risk if an organisation has WHS policies and procedures in place.

Record any existing risk management controls you identify in the Controls column of your Risk Register.

Examples of Operational & Management Controls

- Policies
- Procedures
- Work manuals
- Internal audit
- Reporting
- Human resource management system
- Recruitment polices
- IT network use agreement
- WHS management system
- Meetings
- Escalation process
- Budgeting
- Strategic planning process

This is a guide only. You will need to develop a list of risk management controls specific to your organisation.
6.4 Risk Analysis

Having identified the potential risks to your organisation, for each risk you now need to determine the likelihood of its occurring, the consequences should it occur, and any other attributes of the risk that may be informative for analytical purposes.

The stages are:

- Assess the likelihood and consequences of each risk
- Determine the overall level of risk
- Develop a risk profile
- Assign risk ownership

6.4.1 Assess Likelihood and Consequence

You can assess the likelihood of each risk by using the table of likelihood levels developed for your framework.

<table>
<thead>
<tr>
<th>Likelihood Level</th>
<th>Description Examples</th>
<th>Probability Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remote Chance</td>
<td>• May occur only in exceptional circumstances.</td>
<td>&lt;20%</td>
</tr>
<tr>
<td></td>
<td>• Typical frequency once every 500 years or more.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;0.005% (1 in 20,000 chance)</td>
<td></td>
</tr>
<tr>
<td>Improbable</td>
<td>• It is not expected to occur.</td>
<td>&gt;20% - 40%</td>
</tr>
<tr>
<td></td>
<td>• No recorded incidents or evidence.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Little opportunity, reason or means to occur.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Typical frequency once every 100 years.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;0.05% (1 in 2,000 chance)</td>
<td></td>
</tr>
<tr>
<td>Possible</td>
<td>• May occur at some time.</td>
<td>&gt;40% - 60%</td>
</tr>
<tr>
<td></td>
<td>• Few or infrequent recorded incidents or evidence.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Some opportunity, reason or means to occur.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Typical frequency once every 20 years.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;0.5% (1 in 200 chance)</td>
<td></td>
</tr>
<tr>
<td>Probable</td>
<td>• Likely to occur/recure.</td>
<td>&gt;60% - 80%</td>
</tr>
<tr>
<td></td>
<td>• Regular recorded incidents and strong evidence.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Will probably occur in many circumstances.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Typical frequency once every 5/7 years.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;5% (1 in 20 chance)</td>
<td></td>
</tr>
<tr>
<td>Almost Certain</td>
<td>• Likely to occur/recure.</td>
<td>&gt;80% - 100%</td>
</tr>
<tr>
<td></td>
<td>• High level of recorded incidents and strong evidence.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Typical frequency every 5 years or less.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Likelihood over 5 years: &gt;50% (1 in 2 chance)</td>
<td></td>
</tr>
</tbody>
</table>
You can assess the consequence of each risk by using the table of consequence levels developed for your framework. The following table provides examples for two categories.

<table>
<thead>
<tr>
<th>Consequence Level</th>
<th>Health &amp; Safety</th>
<th>Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insignificant</td>
<td>Minor incident not requiring first aid</td>
<td>Minor local adverse public attention or complaints</td>
</tr>
<tr>
<td>Minor</td>
<td>First aid treatment required</td>
<td>Adverse media attention and/or heightened concern of local community</td>
</tr>
<tr>
<td>Moderate</td>
<td>Significant but reversible disability requiring hospital visit</td>
<td>Heightened and/or significant adverse media attention</td>
</tr>
<tr>
<td>Major</td>
<td>Series of significant but reversible disabilities requiring hospitalisation</td>
<td>Serious public or media outcry (local coverage)</td>
</tr>
<tr>
<td>Critical</td>
<td>Fatality and/or severe irreversible disability (&gt;30%) to one or more persons or permanent disabling injury or disabling illness to one or more person</td>
<td>Ongoing serious public or media outcry (state or national coverage)</td>
</tr>
</tbody>
</table>

Depending on the type of risk, you may also want to analyse historical data on similar events, compare to other events and/or seek expert advice or forecasts.

### 6.4.2 Determine the overall level of risk

Once you have assessed the likelihood and consequence level of each risk, you can assess their overall level of risk using the risk matrix which is part of your framework.

Start at the likelihood level then go across to the consequence level to determine the overall level of risk.

- **Extreme**
- **High**
- **Medium**
- **Low**

For example: if a risk is ‘improbable’ and ‘moderate’, its risk level will be ‘medium’.

Remember that an otherwise significant risk may have a ‘low’ risk level because effective controls are in place to manage it.

### 6.4.3 Develop A Risk Profile

You can develop a risk profile for your organisation by plotting all the risks into the risk matrix.

This requires some time, so you may choose not to do it. However, developing a risk profile and then comparing it against a risk review carried out after risk treatment plans have been developed can be a useful method for demonstrating the effectiveness of risk management activities. This information can then be communicated to stakeholders such as the Board.
6.4.4 Assign Risk Ownership

As each risk is assessed, assign the risk to an owner who will be responsible for managing it. Risk owners are usually senior managers or staff who have authority to manage risks and to allocate resources for risk treatment actions.

Assigning ownership to risks is an important element in integrating risk management into the organisation. Risk ownership improves accountability for managing risks within acceptable, or valid, levels of tolerance and for escalating any risks deemed unacceptable.
6.5 Risk Evaluation

6.5.1 Overview
The purpose of this step is to list risks in order of priority for action. The list will show which risks need treatment and which don’t; and of those requiring treatment, which are the most urgent. There are two stages:

- Evaluate risks
- Determine whether risks should be retained or escalated

6.5.2 Evaluate Risks
To evaluate a risk, compare its overall risk level against the organisation’s risk tolerance and appetite. This is where your risk profile comes in handy.

Does your organisation have low tolerance for high level risks? If they do, your profile may show whether or not you have too many of these risks.

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Escalation and Retention Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extreme</td>
<td>Escalate to the Board, risks generally not accepted or retained.</td>
</tr>
<tr>
<td>High</td>
<td>Escalate to Head of Agency, risks generally not accepted or retained.</td>
</tr>
<tr>
<td>Medium</td>
<td>Escalate to relevant senior officer or senior management level, specify risk management actions, risks may generally be retained and managed at operational level.</td>
</tr>
<tr>
<td>Low</td>
<td>Monitor and manage at the relevant officer, or operational level, risks generally retained.</td>
</tr>
</tbody>
</table>

If your organisation has an appetite for high level risks but only when they are outweighed by the benefits being pursued, your evaluation will need to seriously consider whether or not the benefits do outweigh the level of risk. This is a decision for each organisation to consider carefully.

6.5.3 Escalate or Retain Risks
At this point in the process you should refer to the escalation guidance available in your framework (see example below).

Example of Escalation and Retention Guidelines
6.6 **Risk Treatment**

6.6.1 **Overview**
The purpose of this step is to identify and implement the most appropriate means to mitigate risks deemed to be at an unacceptable level. These risk treatments, in effect, will become new risk management controls or will augment existing controls.

There are four steps:

- Identify risk treatment options
- Select the most suitable risk treatment option(s)
- Develop risk treatment plans
- Implement and review risk treatments

6.6.2 **Identify Risk Treatment Options**
In identifying treatment options, you should first refer to the general guidance available in your framework (see the example below).

**Example of Escalation and Retention Guidelines**

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Risk Treatment Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extreme</td>
<td>Immediate action required to actively manage risk and limit exposure</td>
</tr>
<tr>
<td>High</td>
<td>Cost/benefit analysis required to assess extent to which risk should be treated - monitor to ensure risk does not adversely change over time</td>
</tr>
<tr>
<td>Medium</td>
<td>Constant/regular monitoring required to ensure risk exposure is managed effectively, disruptions minimised and outcomes monitored</td>
</tr>
<tr>
<td>Low</td>
<td>Effectively manage through routine procedures and appropriate internal controls</td>
</tr>
</tbody>
</table>

You should then zoom in on more specific options for risk treatment including:

- avoiding the risk by not starting or carrying on the activity that gives rise to it, or by changing how the activity is undertaken;
- removing the source or cause of the risk;
- reducing the likelihood of the risk’s occurring;
- limiting or minimising the consequences of the risk should it occur;
- sharing the risk with another party or parties (i.e. insurance, contracts, partnering); or
- retaining the risk by informed decision and approval of the Board or senior management.

These are just some options. They are not necessarily mutually exclusive. They may not be appropriate in all circumstances.
6.6.3 Select The Most Suitable Risk Treatment Option(s)

To choose the most suitable risk treatment option (or options), you need to weigh the costs of implementing a treatment against the benefits it is likely to deliver. Issues to consider include:

- the financial and other resources required to implement the treatment;
- the feasibility (including timing) of implementing the treatment;
- how effective the treatment is likely to be in reducing or removing the risk;
- the potential impact of the treatment on stakeholders’ values, perceptions and interests – some treatments may be more acceptable to stakeholders than others;
- whether the treatment will compromise or be in conflict with any legal, regulatory or other obligations your organisation has;
- possible unintended consequences of the treatment – risk treatments themselves may affect other existing risks, or may introduce new risks (known as secondary risks);
- the failure or ineffectiveness of a risk treatment is itself a risk.

Organisations often benefit from adopting a combination of treatment options.

6.6.4 Develop Risk Treatment Plans

Risk treatment plans are where you document how the selected treatment option(s) will be implemented. These plans should then be integrated into your organisation’s processes and activities and discussed with appropriate stakeholders.

The kind of information to include in a risk treatment plan is shown in the table below.

**Example of Risk Treatment Plan**

<table>
<thead>
<tr>
<th>Risk No:</th>
<th>5</th>
<th>Plan Ref No:</th>
<th>1</th>
<th>Date Logged:</th>
<th>June 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compiled by:</td>
<td>Financial Controller</td>
<td>Priority H/M/L:</td>
<td>H</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treatment Plan Owner:</td>
<td>Financial Controller</td>
<td>Target Date:</td>
<td>Sep 2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviewer:</td>
<td>Chief Executive Officer</td>
<td>Review Date:</td>
<td>July 2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Description:</td>
<td>Failure to adequately report to the regulator resulting in potential fines and penalties</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treatment Plan:</td>
<td>Review and strengthen the reporting system and include in the audit process</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treatment Plan Objective(s):</td>
<td>To reduce the potential threat of fines and penalties arising from the risk of failure to adequately report in a timely manner</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 1 Proposed actions: | • Review existing process  
• Review reporting mechanism  
• Develop draft change to process  
• Obtain CEO approval for revised process  
• Implement new reporting system |
| 2 Resources required: | • Time (approximately 15 working days)  
• No additional financial resources required – part of management time |
| 3 Responsibilities: | Financial Controller reporting to the Chief Executive Officer |
| 4 Timing for implementation: | Three months |
| 5 Monitoring requirements (i.e. weekly/monthly): | Monitor progress on risk treatment plan monthly as part of the existing management process |
As a minimum, the following information is required:

- the name of the treatment plan;
- the risk(s) the plan is intended to mitigate;
- the plan’s objectives;
- the proposed actions;
- the name(s) of the person(s) accountable for the plan’s development and execution;
- the risk owner;
- resource requirements including time, costs and other inputs;
- performance measures and monitoring of progress made (weekly, monthly or quarterly); and
- timing and scheduling.

You may wish to include additional information such as:

- the priority of the plan (vis-à-vis any other risk treatment plans);
- secondary risks that may arise from the treatment – the link with secondary risks should be maintained; and
- (if the plan includes more than one treatment option) the order in which risk treatment options should be implemented.

### 6.6.5 Implement and Review Risk Treatments

The implementation of a risk treatment may have varying degrees of success. It may lessen the risk, remove the risk entirely, or have no effect at all. It may also lead to secondary risks. It’s therefore important to monitor and review treatments.

In summary, implementing and reviewing risk treatments is a cyclical process of:

- implementing the risk treatment;
- assessing its effectiveness;
- deciding whether any remaining risk (known as residual risk) is at a tolerable level;
- (if it is not tolerable) implementing a new risk treatment; and
- assessing the effectiveness of that treatment.

After implementing a risk treatment, you should also re-assess and re-rate the risk, but now with the treatment in place. The treatment, in other words, has become a new risk management control.
6.7 Communication and Consultation (Ongoing Process)

6.7.1 General
In all steps of the Risk Management Process you should ensure that the appropriate stakeholders (external and internal) are consulted and/or informed about what’s going on. You should therefore develop plans and mechanisms for doing this at an early stage.

6.7.2 Who Should Be Informed/Consulted
A useful guide as to who should be informed/consulted, and what aspects of risk and risk management they should be informed about, is the list of stakeholders identified in Step 1 Establishing the Context.

Internal stakeholders
The Board needs to be fully informed of the outcomes of risk assessments and risk reviews. In particular, they must be informed of risks at levels beyond the acceptable or tolerable.

Senior managers or officers are usually involved in identifying, assessing and managing risks, so they should be consulted. In particular, ensure that those responsible for the organisational processes and outcomes in each risk category are consulted. Consultation can be done through one-on-one interviews, group workshops or other methods.

Staff need to be informed of the outcomes of risk assessments and risk reviews so they can manage risks appropriately and in accordance with risk management policy.

External stakeholders
There may be certain risk information you are required to communicate to external stakeholders due to compliance and governance obligations. Besides that, you should think carefully about what you choose to communicate. For example, it is unlikely that you would inform potential suppliers about individual risks or your Risk Register. However, you may decide to inform them that you have a Risk Management Policy and Framework to manage risks, because this information may assist in negotiating favorable terms or conditions for the procurement of goods and services.
6.7.3 Communication
Effective communication (e.g. reports) will ensure that those responsible for implementing the Process, as well as other relevant stakeholders, understand the basis on which decisions are made and the reasons why particular actions are required. It will also support and encourage accountability for ownership of risks.

6.7.4 Consultation
A consultative approach will yield more successful outcomes by helping to engage managers and staff in the Risk Management Process and to integrate risk management into the organisation. For example, it will:

- help establish the context appropriately,
- ensure the interests of stakeholders are understood and considered,
- help ensure that risk categories and risks are adequately identified,
- bring together different areas of expertise for analysing risks,
- ensure that different views are considered when defining risk criteria and evaluating risk,
- secure endorsement and support for treatment plans,
- enhance appropriate change management during the Risk Management Process, and
- develop an appropriate external and internal communication and consultation plan.
6.8 Monitoring and Review (Ongoing Process)

6.8.1 General
Risk management must be responsive to change – both within the organisation and in the external environment. Therefore, the activities of monitoring and reviewing must be ongoing, and are integral to every step in the Risk Management Process.

6.8.2 Establish Monitoring Mechanisms
By monitoring risks, controls and risk treatment plans, you can ensure that risks are being managed in accordance with your organisation’s Risk Management Policy and Framework. You can also determine the effectiveness (impacts, benefits and costs) of your risk management strategies. Monitoring is therefore part of the continual improvement process and will enhance organisational value.

6.8.3 Establish Review and Reporting Mechanisms
As well as conducting ongoing monitoring activities, we recommend you set up formal review and reporting mechanisms. These mechanisms are a requirement of good governance, provide the management team with regular and up-to-date information on risks, risk treatment plans and any issues arising, and assure the Board that risks are being managed in line with the Risk Management Policy and Framework.

Formal review and reporting mechanisms would look something like this:

- On a monthly or quarterly basis (or whatever the Board meeting cycle is), report to the Board with an update on the Risk Register and risk treatment plans (particularly for ‘extreme’ and ‘high’ risks).
- On a monthly basis (or whatever the management/senior staff meeting cycle is), review risks and risk treatment plans.
Annex A – Example of Risk Management Policy

Overview

(Name of NGO) recognises that the organisation is exposed to certain risks due to the nature of its activities and the environment in which it operates. The key to (Name of NGO)’s success is the effective management of risk to ensure its organisational objectives are achieved.

Risks arise due to the organisation’s operational undertakings and from external sources. Risks occur in numerous ways and have the potential to impact financial performance, reputation, health and safety, community and the overall performance of the organisation.

Policy

In order to fully understand such risks, (Name of NGO) has established a Risk Management Policy which provides the framework for how risk will be managed within the organisation. The Risk Management Policy is based on the ISO 31000:2009 Risk management – Principles and guidelines, and forms part of the governance framework of the organisation. It also integrates with the strategic planning process. The Policy addresses both strategic and operational risks.

We will use our skills and expertise to identify risks across the organisation. (Name of NGO) will also identify operational controls in place which manage risk.

We will assess the size or degree of risk by taking into consideration the potential impact to our operations. Risks will be ranked in a common and consistent manner and a Risk Register will be maintained containing material risks to the organisation.

Risk treatment actions and plans will be developed for risks which are unacceptable to the organisation. Risks, and the effectiveness of the risk management system will be monitored on a regular basis and we will communicate and consult with relevant stakeholders on our approach to managing risk.

Risk Tolerance

Our tolerance for adverse risks will be used to determine which risks are treated through the development of risk treatment actions to manage risks to an acceptable level. During this process we will consider additional control measures to manage the risks to acceptable levels.

Integration with Governance And Strategic Planning

The Risk Management Policy forms part of the governance framework and integrates with the strategic planning process. The Policy addresses both strategic and operational risks and the requirement of the organisation to operate in its regulatory environment.

Accountability

Ownership of risks and risk treatment actions will be assigned to relevant roles within the organisation. (Name of NGO) has incorporated risk management accountability in executive, management and supervisory roles which are required to report on risks and risk treatment actions.
**Risk Management Oversight**

(Name of NGO)’s Audit and Risk Committee (or Board if the organisation does not have an Audit and Risk Committee) will oversee the Risk Management Policy and the organisation’s exposure to risk. Oversight of the effectiveness of our risk management processes and activities will provide assurance to the Board and stakeholders and will support our commitment to continuous organisational improvement.

**Reporting, Monitoring and Review**

(Name of NGO) will monitor risks and treatment actions on an ongoing basis. Performance of the risk management system and outstanding risk treatment actions will be reported to the Audit and Risk Committee (or Board if the organisation does not have an Audit and Risk Committee) on a regular basis. Formal reviews of both the risk management system and the Risk Register will take place on an annual basis and the Board will assess the effectiveness of the Risk Management Policy annually.

**Communication and Consultation**

(Name of NGO) will communicate and consult with its stakeholders (internal and external) on its approach to risk management.

(Name)

Chief Executive Officer / Chair / Managing Director

(Date established)

(Date for review)