

Achieving a Balanced Framework of Controls

Many charities have established a risk assessment process. If they did not have an established process before SORP 2000, they will probably have introduced one in order that the trustees may report that they have identified the major risks facing the charity, assessed them and have systems in place to mitigate the effects. However, to many, this may feel like another bureaucratic exercise that does not actually achieve any management improvement for the organisation. And in some cases, they would be right. The point of risk management is not to simply tick boxes. Risk management is a powerful process that can drive change and improvements in performance and efficiency. Charities that are second stage implementers are really feeling the benefits.

What is the second stage?

The second stage assumes that you have a basic risk assessment in place that looked at a long list of risks and then ranked them according to probability and impact. You may have thought about the appropriate action to some extent, but this is where the second stage begins. Second stage risk management focuses on controls and management action.

What are controls?

Too often controls are thought of simply as accounting controls – the traditional controls such as segregation of duties, arithmetic controls and authorisation such as the signatories to cheques. However, controls can encompass a whole range of activities which help to manage risk.

Tracey Hassell in her book *The Charity Finance Charities Internal Audit Checklist* describes the framework of controls that should exist for an activity. Hassell makes the point that organisations need achieve a balanced portfolio of controls, rather than focusing too much on one type of control. In addition to traditional controls, the types of controls to consider are:

- **Aims and objectives** – a clear understanding by staff and volunteers on the strategic direction of the organisation and at an operational level, of the objectives of their department and the particular initiative they are working on.
- **Planning** – converting strategic plans into workplans for departments, teams and individuals. Also that there are contingency plans in the event of certain risks crystallising, such as disaster recovery plans and fraud response plans.
- **Accountability** - ensuring that job descriptions and appraisals are consistent with plans and objectives, and that individuals are clear on their roles and responsibilities. The line management should support accountability as should the corporate governance structure through to the trustees.
- **Training and competency framework** – ensuring that staff and volunteers are competent to do the job expected of them, strongly linked to the strategic plans. This means looking at how the strategy should be implemented and what skills are needed to implement it.
- **Monitoring** – continuously reviewing whether the actions and initiatives being undertaken are achieving the desired outputs and outcomes. Key performance indicators tracked over a period of time and external benchmarking are all ways in which the charity can measure its performance.
- **Employee welfare** – good morale and highly motivated staff increase the chances of successful outcomes, where disgruntled staff present a range of risks to an organisation.
- **Independent review** – external and internal audit, regulatory inspections and Charity Commission visits – all are an opportunity for the charity to learn and improve.

Mapping controls

Second stage work will build a picture of the existing controls in a team or department, looking at all the above areas as well as the traditional controls. You construct the map by talking to managers and staff individually or as a group. After some work on the map, a session with a group of managers and staff to feedback the results will ensure that the map has validity and is one they recognise. Also as part of this exercise, you need to help them to judge the strength of the controls and how effective they are. For example, a procedure may exist in the manual, but is it implemented in the way intended?

Matching controls to risks

Drawing together the assessed risks and the controls, you need to then review how well they are matched. For high risk areas we need to ensure that the controls are effective. This is not simply to say that the controls are implemented, but to consider whether they are appropriate. An identified risk may be assessed to have a high impact if it happens, but it is not very likely that it will happen. There may be little point in controlling the likelihood if you can do little to reduce that, but you should have a means of mitigating the impact if it did happen. It is important to consider whether the emphasis is correct in the controls.

Some areas may be over-controlled, whilst other areas are neglected. Controls may have been in place long before the charity undertook formal risk assessment and generally are established in response to perceived risks. However, the risk profile of the charity may have changed over time and the perceived risks may not in reality be the highest ranking risks. Commonly, controls are established where this is easy, not necessarily where controls are most important or in response to high ranking risks. When you begin this exercise, you may well find that there are many controls to prevent obvious financial misdemeanours and fraud, but very little controls to prevent damage to the charity's reputation. It is much harder to design appropriate controls to manage reputational risk, especially if you are only thinking of traditional controls. Yet, reputational risk nearly always comes out as the area with the highest risk ranking.

Example

XYZ charity produces an annual report every year, but it is always a last minute rush to get the various sections written by different people in the charity. Frequently, the chief executive and the chairman become involved at the end of the process changing the text and rewriting sections. The end result is that the annual report is not doing its job and so the person in charge of communications has decided to review the process.

Objective: To produce an annual report by the end of September that will effectively communicate the work of the charity to stakeholders.	
Risks: <ul style="list-style-type: none"> • Failure to co-ordinate contributions so that the message is unclear or unfocused • Failure to complete and deliver the annual report on time • Inaccurate or misleading statements are made 	
Controls:	
Planning A detailed plan showing key events and a timetable, as well as who is responsible for actions. The plan will have a realistic timetable and budget, allowing sufficient time for review and some contingency.	Monitoring Key events in the timetable will be monitored and progress reported. Expenditure commitments will be compared to original estimates.

<p>Accountability Clarity over who has overall responsibility and duty to co-ordinate. This person has to have sufficient authority to take appropriate action if monitoring shows that progress is not adequate.</p>	<p>Authorisation Senior staff and trustees will be part of the approval process. Their role in approving will be clarified as:</p> <ul style="list-style-type: none"> • Content – confirm accuracy and balance • Impact – the overall image presented is faithful to the truth
<p>Training and competency As part of planning stage, identify skills needed to complete the task. Ensure that individuals with knowledge about the work of the charity are involved in producing the content to ensure accuracy. Ensure skilled writers are producing text and appropriate images.</p>	<p>Staff welfare Ensure that staff allocated responsibilities have the time and skills to undertake the tasks, and will not be unduly overworked or stressed.</p>

The example sets out steps that seem obvious, yet a great number of charities do not manage the process to produce their annual report well and miss an opportunity to enhance their reputation.

Benefits of mapping controls

A key benefit of mapping controls is that you can ensure that you do put emphasis on the controls where the risks are high, but that controls in areas ranked low risk can be eased or removed altogether. This may reduce effort and costs and may also free staff time to concentrate on other tasks that add more value. Another benefit is that you can review the balance of controls to ensure that the controls are appropriate and likely to be effective. You should also view non-traditional controls in a more positive light and see that the overall control environment contains many people management issues as well as good systems and processes.