Risk Management Framework

Introduction

Edmund Rice Foundation Australia (ERFA) recognizes that not-for-profit organizations face potential risks that can have their origins in the external environment or inside the organization. These risks can have the potential to impact at different levels within the organization or the projects it supports.

ERFA recognizes that risk management is essential for ensuring ERFA's longevity in working towards the realization of its vision and mission and that risk assessment is an essential capacity building enterprise which enables the organisation to:

- increase the probability that it will be compliant with legislation, regulations and contracts
- make its organizational processes more efficient
- improve planning and decision-making
- reduce the exposure of employees and volunteers to health and security risks
- increase the confidence of donors and stakeholders that funding goals and objectives will be met

Definition

Risk is anything that has the potential, if it becomes a reality, to create uncertainty and hence impact on the organisation's achieving of its mission, goals, objectives and strategies. Therefore, the aim of risk management is to identify and reduce such uncertainties.

Risk Assessment

ERFA enacts a four stage approach to risk assessment:

- risk **identification**
- risk **assessment** - assessing the likelihood of risks occurring and their potential consequences for the organisation
- risk **mitigation** – identifying and enacting the most appropriate actions to mitigate identified risks
- **continuous improvement** - risk assessment and management integrated into regular organisational and project planning and review processes

Risk Categories

ERFA has identified the following as the main risk categories that could have the potential to impact on the organisation:

      1 External – areas over which ERFA has no direct control (Page 5)

            1.1 Legal – e.g. unfavourable changes to legislation and regulations and government policy pertaining to NGOs

            1.2 Finance – e.g. unfavourable foreign exchange rates

            1.3 Civil – e.g. unrest in project environments

            1.4 Environmental – e.g. natural disaster in project environment

      2 Internal – areas over which ERFA can exercise direct control (Page 6)

            2.1 Governance

            2.2 Finance

            2.3 Fundraising

            2.4 Human Resources (HR)

            2.5 Work, Health & Safety (WH&S)

            2.6 Information Technology (IT)

      3 Projects – areas over which ERFA has influence but not ultimate control (Page 10)

- e.g. issues related to ERFA's in-country partner agreements and in-country management of ERFA supported projects

      4 Immersion Programs (Addendum)

- ERFA immersion programs provide opportunities for adult participants to visit and participate in development projects supported by ERFA in developing countries.
- ERFA Immersion Risk Management Framework is an addendum to ERFA Risk Management Framework.

Risk Impact Table and Risk Action Table

Having assessed a risk's likelihood and consequences, the **Risk Impact Table** shows how the risk will be ranked. The **Risk Action Table** provides guidance on whether or not a risk treatment plan would be expected.

Risk Impact Table (Heat Map)

Impact Colour Coding

LIKELIHOOD	IMPACT				
	Insignificant	Minor	Moderate	Major	Extreme
Almost certain					
Likely					
Possible					
Unlikely					

Low	
Medium	
High	
Extreme	

Risk Action Table

RISK LEVEL	ACTION
Extreme	Must have immediate risk improvement put in place, coupled with close and ongoing monitoring of risk
High	Risk improvement plan most likely required with planned risk reduction within acceptable timeframe
Medium	Decide whether a risk improvement plan is needed, otherwise continue with existing controls
Low	Continue with existing controls

Consequences Table - Consequences were risk to occur

IMPACT	IMPACT DESCRIPTOR
Insignificant	Little or no impact. Dealt with locally. No ongoing issues.
Minor	Some individual activities impacted needing corrective action. Limited financial cost. No external implications.
Moderate	Potential interest from external regulatory authorities. Some material financial implications and / or change to operational activity / procedures required.
Major	Serious reputational damage. Breach of laws / regulations. Significant adverse PR. Media attention. Major impact on operations.
Extreme	Likely threat to the viability and future of the organisation. Serious breach of laws / regulations. Significant adverse media attention.

In summary – the 3 key criteria for risk assessment are:
- Effectiveness of current controls
- Likelihood of identified risk occurring, given current controls
- Consequences, were identified risk to occur