



Charity guide

A Healthy Appetite

The importance of a considered
and documented risk appetite



Decision-making at its heart is a risk assessment – it involves weighing up the pros and cons of different possible courses of action, assessing the level of risk attached to each option, and consideration of opportunity cost. These considerations are much more difficult if you do not know how much risk you are willing to take.

‘Risk appetite’ is the level of risk a charity is willing to seek or accept during the pursuit of its aims and objectives. A risk appetite statement attempts to capture a charity’s risk appetite for each of its areas of operation – the statement is the output of a charity’s consideration of its risk appetite.

If done correctly, a risk appetite statement provides a framework to assist with decision-making, both in relation to the management of risks but also to enable a charity to make risk-informed and balanced decisions about opportunities. It is therefore vital that charities consider and document their risk appetite.

Why is risk appetite so important?

Charity trustees have a legal responsibility to safeguard the assets and reputation of the charity. Decisions should not be made and actions should not be taken that put the assets, beneficiaries or reputation of the charity at a level of undue risk (CC3: The Essential Trustee). Clearly, then, there is a level of risk for each area of operation of a charity which should not be exceeded.

Charities, however, must also demonstrate that they utilise their assets to deliver an identifiable benefit to the public, or a section of the public. A charity therefore cannot

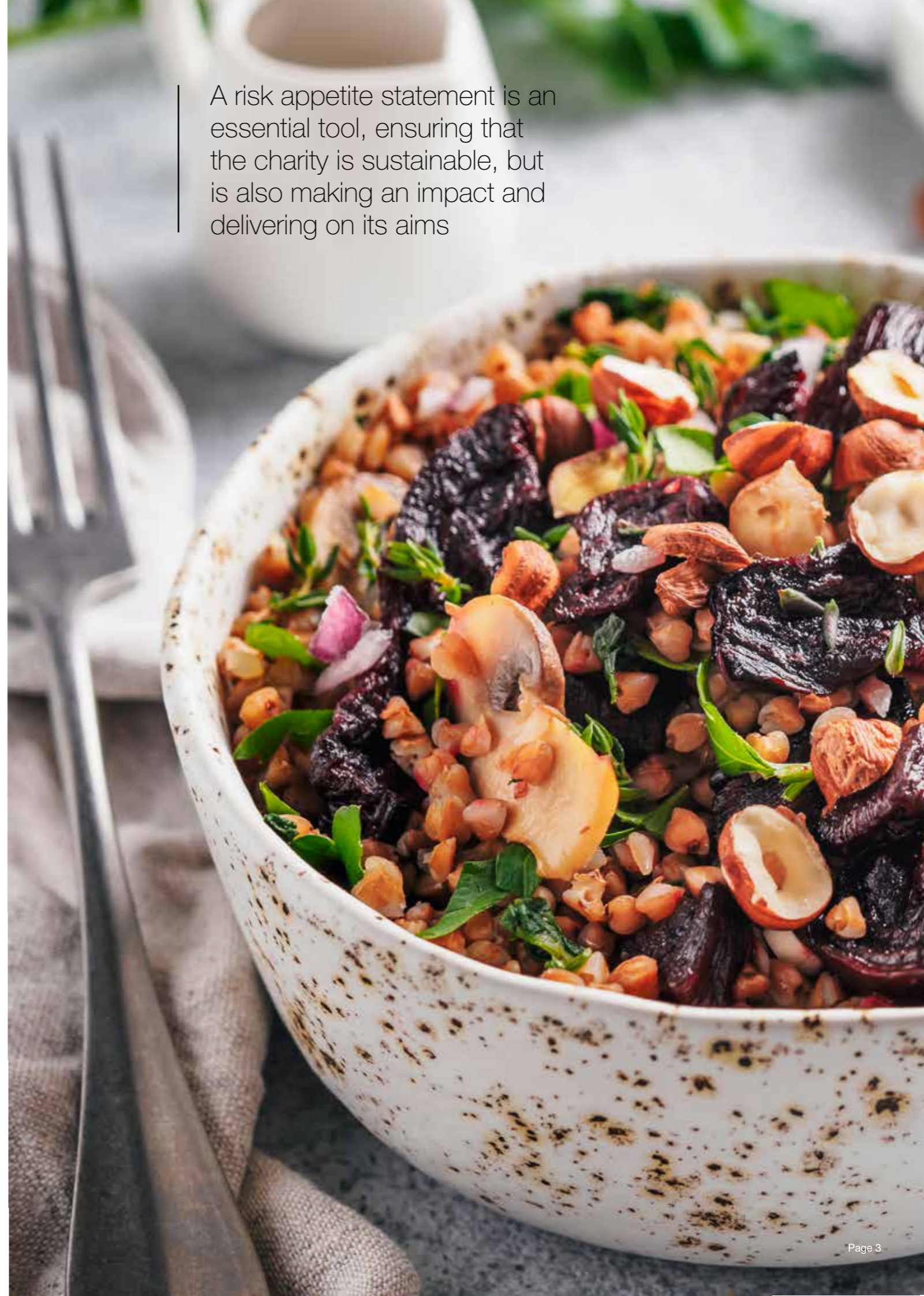
shy away from taking any risk at all – a certain level of deliberate, calculated risk is likely to be needed if a charity is to make the most of its available resources and deliver on its aims and objectives.

As the Charity Governance Code makes clear, being risk averse can in itself be a risk. A charity can miss out on opportunities by always ‘playing it safe’: for example, innovation usually carries risk, but that is often where the greatest potential lies.

There must therefore be an appropriate balance between, on the one hand, an unacceptable level of risk that puts the assets, beneficiaries or reputation at undue risk and, on the other hand, risks that are accepted (or indeed purposefully sought out) as part of the charity’s strategy, aims and objectives.

A risk appetite statement (and the considerations that go into producing one) helps a charity to identify where this balance lies for each area of its operations. As a result, it is an essential tool in ensuring that the charity is sustainable (i.e. not taking undue risk) but also making an impact and delivering on its aims (measured and appropriate risk is encouraged – innovation is not stifled).

A risk appetite statement is an essential tool, ensuring that the charity is sustainable, but is also making an impact and delivering on its aims





How to consider risk appetite

Risk appetite should be considered annually, at the same time as the charity's review of the risk register.

Sufficient time must be set aside for these considerations; they should not be rushed. The annual 'away day' or similar could be a good time to consider the risk appetite as part of broader discussions.

Risk appetite is set by the Trustees, and management then applies this on the ground. The process of defining the risk appetite should, however, be two-way, involving both the Trustees and the Senior Management Team (SMT).

The SMT will already be involved in identifying and managing risk at an operational level, so it is vital that it has an input. This should cover its views on the following, for each area of the charity's operations:

1. The key risks that the charity is currently facing;
2. Risks/actions that the charity should be taking (i.e. acceptable risks); and
3. Risks that should be avoided (i.e. unacceptable risks).

The most recent version of the risk register will provide a good starting point for these conversations. It is important to think about different types of risk (e.g. strategic, financial, legal / compliance, operational, reputational) as well as making sure that each area of activity is covered.

The Trustees will have a more strategic view on risk, and on what the overall risk appetite should be. The Trustees should undertake their own review following the same considerations looked at by the SMT.

The risk appetite statement should document the following:

- What risks are acceptable;
- What risks are deemed unacceptable; and
- What overall level of risk is sought or accepted for each area.

Quantifying the overall level of accepted risk for an area can be difficult, as the factors that drive these conclusions are often qualitative in nature. HM Treasury guidance advocates a scale from 'averse' through 'minimalist', 'cautious', 'open' to 'hungry'. Or a simpler 'low' 'medium' or 'high' willingness to accept risk could be used.

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Defining risk appetite

The example format below is a useful way to ensure coverage of all types of risk, and areas of activity within the charity. It also provides a clear guide for management, a framework within which they can operate (to the levels delegated to them) knowing the Trustees views on risk for each area. This helps to ensure that the risk appetite is embedded across the charity.

Area	Acceptable risks	Unacceptable Risks	Risk appetite
Strategic			
Merger	Merger with a charity who's aims and culture align well with our own	Merger with a charity who's aims and culture do not clearly align with our own	Medium
Starting retail operations	Opening one shop at HQ then one further shop annually if the model is profitable	Opening several sites at the same time	High
Legal / compliance			
Donor data	No acceptable risks	Non-compliance with GDPR	Low
Operational			
Overseas trips	Travel to the following countries...	Travel to the following countries...	Medium
Financial			
Investing	Investment in ethical investments for a low / moderate return	Investment in unethical investments including tobacco, alcohol, arms	Low
Reputational			
Fundraising	Direct mailing to known list of donors	Use of third party contractors or call centres	Low
Donations	Donations from UK residents who can provide confirmation of source of funds	Donations from individuals in [named] countries overseas who cannot provide confirmation of source of funds	Low

The link with risk management

It is vital that there is a clear link between risk and control, otherwise some areas will be over-controlled, and others will not be subject to enough control. Risk appetite provides a benchmark against which to assess whether residual risks are acceptable, or whether further action is needed.

The risk appetite level for each area in the charity should be compared to the residual risks within the risk register. Action could be needed where there is a mismatch. For example, if there is a low residual risk, but the risk appetite for that area is high, then perhaps the level of control can be decreased (freeing up resources, encouraging more innovation). If there is a high or medium residual risk, but the risk appetite is low, then additional control may be needed.

Conclusion

There are clear dangers to a charity's ability to deliver on its aims and objectives if it is too risk averse or too prone to taking risks. The former can prevent a charity from 'living up to its potential'; the latter can put a charity's existence at risk. Striking the right balance is vital. A risk appetite statement (and, just as importantly, the discussions that must take place to prepare one) is a key tool in helping charities to get this balance right across their activities. Charities that succeed here are more likely to use their available resources wisely, deliver on their aims and objectives, and make a real impact on their beneficiaries.



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