HELPSHEET 8

Risk management for treasurers

The treasurer is responsible for ensuring that the organisation is protected against financial risks.

A risk is any event or action that harms your organisation's reputation or your ability to achieve your objectives and carry out your operations.

The risk of anything going wrong is usually small, but it can have disastrous consequences. If you do have a financial crisis, face facts immediately, be honest, and keep the information flowing.

Your people are your greatest strength – and your weakest link. The risks include:

- **Lack of financial skills.** People often volunteer or work for not-for-profit organisations because they feel strongly about the organisation's mission and want to be of service. They may not have strong financial skills. You can overcome this weakness by having clear processes and procedures for all financial transactions and training staff and volunteers to follow them.
- **Introducing too much change too quickly.** Some treasurers come in with a new broom approach and want to make major changes. While often these changes will be for the better, you need to remember that volunteers and staff who have been with the organisation for many years may resent these changes. Consulting with staff and providing training will go a long way.
- **The power of thank you**. It is important to recognise the contribution that staff, volunteers and members make to your organisation. Sometimes a 'thank you' phone call or letter is all it takes. Occasional social gatherings also help.
- **Theft and fraud.** While theft and fraud only happens occasionally, there are plenty of cautionary tales about employees or volunteers who've stolen money or taken the laptop when they've left. If you suspect fraud, notify your chairperson and board, contact a lawyer, involve police if necessary, evaluate and change your procedures, ask the person to leave your organisation and consider legal action.
- **Conflicts of interest.** Conflicts of interest can occur when people stand to gain financially or they (or their families) are involved in an organisation with competing or contradicting objectives. Consider asking directors to sign a statement stating they have no conflicts of interest. Use 'the tabloid test' – how would the situation look if it was reported in a tabloid newspaper?

Have a brainstorming session to identify any potential risks. Questions to ask are:

- What risks would prevent us meeting our objectives or carrying out our operations?
- What controls could we adopt to minimise risks to an acceptable level?
- Is your strategy realistic and achievable?
- Could a failure in operations prevent you achieving your objectives?
- Are you losing money or not maximising your financial returns?
- Are you failing to meet your regulatory or taxation obligations?
- Are your people failing to perform?

Once you have identified the risks, analyse and rank them in terms of their likelihood, potential impact and priority.

Develop strategies and methods to prevent or minimise risk. Proactive risk management involves identifying risks and taking action to prevent or minimise the risk.

One way of managing your risks is through internal systems and checks and balances. For example, ideally no financial transaction should be handled by the same person from beginning to the end.

You need to decide who can authorise spending, and how much each person can spend before they need to have the spending agreed to by their manager or the committee. This information must be recorded in your procedures manual and included in training programs.

Even if people have spending limits, it is common practice and common sense to have all cheques counter-signed by one or two office bearers. Often one of these people will be the treasurer.

This can be inconvenient, but it is important to have someone responsible for monitoring expenditure to keep a watchful eye on cash flow and prevent any opportunity for fraudulent behaviour.

Some organisations allow any two out of three or four people to sign cheques. While this is a practical and flexible arrangement, it does weaken the monitoring function.

10-point risk management plan

Risk assessment

1. Develop/review your strategy
2. Highlight the potential risks
3. Research the evidence

Risk analysis

4. Categorise the risk
5. Score and prioritise the risks

Risk management

6. Devise a risk management strategy
7. Agree on a plan of action
8. Communicate about the risk
9. Monitor and evaluate the risk
10. Review policies and procedures

Source: National Council of Volunteer Organisations, UK

Your bank may ask for a list of office bearers who have signing authority and request that they fill out a form for security purposes so their signature can be checked against future cheques. Remember to advise the bank when your office bearers change.

Your financial recording systems should ensure that all expenditure is accurately recorded and directly linked to an item in your budget.

Your organisation needs a minimum level of reserves to fund working capital and provide a safety net for cash-flow fluctuations.

Many small organisations find it hard to build reserves, but it is worth doing. You can ask your funders and supporters for more money specifically to establish reserves, or budget to put aside an amount each year so reserves accumulate slowly over time.

Insurance

Certain insurances are mandatory, such as worker's compensation if you employ staff, and third party insurance if you have vehicles.

In addition to mandatory insurances, you may want to consider:

- Public liability insurance
- Professional indemnity insurance for directors
- Property insurance if you own properties
- Contents insurance

Look at what payment options are available. Can you pay monthly or quarterly rather than a year in advance? Could you get a better deal with a long-term agreement?

Common causes of failure of community organisations

- **Growing programs too fast.** A larger organisation can mean that management and supervision resources are spread too thinly.
- **Income erosion.** Fewer paying clients, fewer customers, and fewer consultancies can all lead to revenue being below expectations.
- **The big project.** Tendering for a large project in an area where your expertise is limited can expose your organisation to new risks.
- **Borrowing.** It is possible to borrow money to relieve cash flow problems and then find that expected income does not eventuate.
- **Organisation inertia.** An organisation can become so rigid its ability to react to new demands is too slow for proper functioning.
- **Decline in service standards.** Unless an organisation can continue to meet the needs of its clients, customers and stakeholders more efficiently than its competitors it may find itself sidelined.
- **Decline in employee development.** Unless the organisation provides its staff with the opportunity to extend themselves the organisation will stagnate and fall behind.
- **Poor cost control.** If you are optimistic about your projections of income and conservative on your forecast of expenses, rather than vice versa, disaster is always near.
- **Neglecting appropriate ratios.** In financial matters gross figures are not everything – the rations are also important. What is your assets-to-liabilities ratio? Income-to-debt? Cost per client? Marginal cost per client?
- **Poor cash-flow forecasting.** If your debts become due before your revenues come in, you're in trouble. People will sometimes wait for their money, but don't count on it.
- **Insufficient information.** If your system of reporting is either too slow or too scrappy, people will not know what they need to know. As treasurer, it is your responsibility to amass the necessary information and pass it on to the board.
- **Fraud.** Fraud in not-for-profit groups does happen - and unfortunately it's not that uncommon. Without being paranoid, don't leave yourself open. Have two people sign cheques, and don't give one person total authority over both spending and bookkeeping.
- **Decline in membership.** If you can't keep your members engaged either by the cause you're pushing or the fun you provide, they'll go elsewhere. The loss of membership dues is the least of your worries; you lose volunteer labour until the work falls on fewer and fewer shoulders, so they resign, and you're into a vicious circle.
- **Reliance on a single form of funding.** An organisation that has most of its funding from one source (Government grant, one donor, special event etc) is particularly vulnerable to decisions taken elsewhere. Unless you have a fallback funding source you could be taken out completely.

Matrix of risk probability against impact

Impact	Very low probability 1	Low probability 2	Medium probability 3	High probability 4	Very high probability 5
Very high 5	Low score	Low score	Medium score	High score	High score
High 4	Low score	Low score	Medium score	Medium score	High score
Medium 3	Low score	Low score	Low score	Medium score	Medium score
Low 2	Low score	Low score	Low score	Low score	Medium score
Very low 1	Low score	Low score	Low score	Low score	Low score