



# Risk Management & Internal Controls

## 2017/18

<b>Document Purpose:</b>	<p>Comprehensive risk management and internal controls framework.</p> <p>For use by Trustees, Management, and Team members as appropriate to areas of responsibility.</p> <p><i>Document, policy and processes to be formally reviewed for accuracy and effectiveness annually (internally). The Governance Sub Group will stand back to take a fresh look at the risk and internal control system as a whole. The review will incorporate external feedback received through audit and recorded in management letter. The Subgroup will annually review system effectiveness and ability to meet the aims for which is was established. This will be reported to Board along with recommendations for improvement.</i></p>
<b>Last Updated:</b>	23 <sup>rd</sup> April 2017
<b>Last Reviewed by Trustees:</b>	15 <sup>th</sup> December 2017
<b>Next Review Due:</b>	December 2018





## Contents

<b>Risk Management</b>	
Policy	p. 3
Reason for Policy	p. 4
Risk Rating	p. 5
Roles & Responsibilities	p. 7
Tolerance to Risk	p. 7
<b>Internal Controls</b>	
Policy	p. 8
Reason for Policy	p. 9
Internal Financial Controls – Income	p. 10
Internal Financial Controls – Purchases & Payments	p. 12



## Risk Management

### Policy

Active Cheshire manages risk in order to minimise the threat to the company, its employees, and its operations.

Identifying and managing possible and probable risks is a key part of effective governance. Managing risk effectively ensures that:

- significant risks are known and monitored, enabling informed decisions and timely action;
- the Company can make the most of opportunities and develop them with the confidence that any risks will be managed;
- forward and strategic planning is improved; and
- aims are achieved more successfully.

Risk management and mitigation remains the responsibility of every employee and trustee of Active Cheshire. This policy will be reviewed annually using the agreed 'Policy Effectiveness Review'.

### Process

As per the Risk Management policy, members of the Company at all levels have a responsibility to be aware of risks, and report identified risks appropriately.

The process for Risk Management is as follows:

1. Risks identified – risks can be identified at any point, and by any member of the team, risks should be reviewed at the outset of any new work/project undertaken.
2. Risks assessed – once identified, risks should be categorised and assessed using the process outlined below by the CEO.
3. Risks recorded – if appropriate, risks to be recorded on the Risk Register by the CEO.
4. Appropriate action(s) identified – and recorded on the Risk Register – by the CEO.
5. Risks monitored, regularly reviewed, and re-assessed via
  - a. Management Team Meetings (Monthly)
  - b. Sub-Group Meetings (Quarterly) – to reflect on wider associated risks
  - c. Board Meetings (Quarterly)

Related Policies / Documents	Related Forms/Templates
Governance Manual Internal Controls Policy	Risk Register

Version	2018_1	Last Updated	23 April 2018
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### Reason for Policy:

As a charity, Active Cheshire needs to be able to continue to meet the needs of beneficiaries now and in the future. Given the nature of the environment in which Active Cheshire operates, a level of risk will always be present but the organisation is morally obliged to monitor levels of risk, and have a risk management process in place; reducing the likelihood of risks turning into issues and minimising any impacts.

Generally, the Company considers risk in terms of the wider environment. The financial climate, society and its' attitudes, the natural environment, and changes in the law, technology and knowledge will all affect the types and subsequent impacts of identified risks.

Although the nature of risks can be financial and non-financial, in most cases the ultimate result and impact will be of a financial nature.

Active Cheshire link all risks to their key strategic objectives, and categorise risks into five major categories:

- Governance for example, an inappropriate organisational structure, conflicts of interest, or lack of trustee/director skills;
- Operational for example, poor contract pricing, security of assets, health and safety of staff;
- Financial for example, inaccurate financial information, inadequate cash-flow, dependence on limited income sources, inadequate insurance, poor investment;
- External for example, damaged reputation, demographic changes, economic or political environment, changing government policy or lack of buy-in from major partners; and
- Compliance for example, acting in breach of trust, acting in breach of employment law, poor knowledge of regulatory requirements of taxation.



**Risk Rating:**

The Company uses the following scoring systems to assess risk on a regular basis.

**Likelihood of Risk**

Descriptor	Score	Example
Remote	1	may only occur in exceptional circumstances
Unlikely	2	expected to occur in a few circumstances
Possible	3	expected to occur in some circumstances
Probable	4	expected to occur in many circumstances
Highly probable	5	expected to occur frequently and in most circumstances

**Impact of Risk**

Descriptor	Score	Impact on service and reputation
Insignificant	1	no impact on service no impact on reputation complaint unlikely litigation risk remote
Minor	2	slight impact on service slight impact on reputation complaint possible litigation possible
Moderate	3	some service disruption potential for adverse publicity - avoidable with careful handling complaint probable litigation probable
Major	4	service disrupted adverse publicity not avoidable (local media) complaint probable litigation probable
Extreme/Catastrophic	5	service interrupted for significant time major adverse publicity not avoidable (national media) major litigation expected resignation of senior management and board loss of beneficiary confidence

Using this categorisation, the Company calculates a mitigated score for all risks as follows:

*Likelihood (1-5) x Impact (1-5) = Risk Rating (1-25)*





	Impact	Insignificant	Minor	Moderate	Major	Catastrophic
Likelihood	Score	1	2	3	4	5
Highly Probable	5	5	10	15	20	25
Probable	4	4	8	12	16	20
Possible	3	3	6	9	12	15
Unlikely	2	2	4	6	8	10
Remote	1	1	2	3	4	5

Based on the score attributed to a particular risk, awareness and action are escalated to the appropriate level, as outlined in the table below:

Cumulative Score	Risk Rating Level	Awareness / Escalation / Action
1-5	Low (L)	Management Team
6-11	Medium (M)	Sub-Group (recorded on organisational Risk Register)
12+	High (H)	Board of Trustees (recorded on organisational Risk Register)





## Roles & Responsibilities:

### **Risk Management Duties of Key individuals**

All members of staff have a responsibility to highlight key risks, actively monitor them and work towards a mitigation plan to reduce the impact and likelihood of all risks to Active Cheshire.

### **Chief Executive Officer**

It is the duty of the Chief Executive to ensure the safety of staff, volunteers and participants and to protect the organisation's assets and reputation. The CEO is ultimately responsible for ensuring that there are appropriate arrangements in place to manage the risks threatening the achievements of Active Cheshire and ensure mitigation is put in place to reduce the likelihood and impact of each risk.

### **Board of Trustees**

The Board of Trustees via the HR, Finance & Risk (HRFR) sub group has a duty to ensure that Active Cheshire has in place the necessary controls to manage its risk exposure and will ultimately determine what level of risk is 'acceptable' by approving this strategy. The Board of Trustees via the HRFR has the duty to review Active Cheshire's Risk Management Strategy annually.

### **Governance Subgroup**

*The Governance Sub Group will stand back to take a fresh look at the risk and internal control system as a whole each year. The review will incorporate external feedback received through audit and recorded in management letter. The Subgroup will annually review system effectiveness and ability to meet the aims for which it was established. This will be reported to Board along with recommendations for improvement*

### **Management Team**

The Management team have the responsibility to notify the CEO of any risks which arise in their work areas, they must provide coherent and detailed information relating to the risk and an analysis of the likelihood and impact of the specified risk. They must also engage with any direct reports to understand any potential risks in their day to day working.

### **Staff Team**

For risk management to be effective it must actively involve staff at all levels within the organisation. It must be seen as everyone's responsibility and not just that of any one individual or department.

It is the responsibility of all staff to operate in a safe and efficient manner and to participate in the reporting, assessment and management of risk within their individual work area. If a member of staff becomes aware of a risk or issue they must first identify a plan to manage and mitigate the risk and then escalate this to their line manager to ensure the risk can be managed as part of the risk management process.

### **Tolerance to Risk**

It is inevitable that there will be a level of risk present in the day to day running of the organisation. It is accepted that risk at a level of 15 or below will be accepted; excluding any risks which relate specifically to the Governance, legal compliance, financial position or HR & Safety of the organisation. Any risks of this nature or scoring above the agreed level will be recorded by the CEO then reviewed by Governance, Finance and Risk sub-group, before any action is taken.



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## Internal Controls

### Policy

Significant business risks will be managed and arrangements made to ensure a sound system of internal control in order to promote and ensure probity and propriety in the conduct of the Company's business. All Directors are required to be aware of these arrangements.

The Board will review and agree annually formal Financial Regulations covering the day-to-day management and internal control of financial and other resources. The Regulations will include full details of all those with authority/responsibility for banking, contracts, ordering goods and services, cheques, assets, bookkeeping, petty cash etc.

Signatories to bank accounts will be agreed at a meeting of the Directors and the names of these signatories will be recorded in the Minutes

The advice and guidance provided by the appointed external auditor, Companies House, and the Charity Commission will be noted, and where appropriate, acted upon. This policy will be reviewed annually using the agreed 'Policy Effectiveness Review'.

An ad-hoc internal audit will take place to assess compliance.

### Process

To achieve this, the Company will:

- 1) ensure a risk management process is in place, that risk management procedures are reviewed, and that appropriate insurance cover is held for all assets and activities;
- 2) ensure the risk management system covers partnership working;
- 3) ensure systems of internal control are reviewed and reported to the Board;
- 4) ensure codes of conduct are adopted and compliance monitored; and
- 5) ensure arrangements to detect fraud and corruption are effective, ensuring that anti-fraud policies, whistle blowing procedures, and arrangements for special investigations are in place.

Related Policies / Documents	Related Forms/Templates
Governance Manual Risk Management & Internal Controls Scheme of Delegation Employee Handbook	Risk Register

Version	2017_1	Last Updated	November 2017
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## Reason for Policy

Internal financial controls are essential checks and procedures that help organisations:

- Meet their legal duties;
- Administer finances and assets in a way that identifies and manages risk;
- Ensure the quality of financial reporting, by keeping adequate accounting records and preparing timely and relevant financial information.

Internal financial controls reduce, but do not eliminate, the risk of losses through theft and fraud, bad decisions, human error, breaches of controls, management override of controls, and unforeseeable circumstances. Internal financial controls reduce the risk of those things happening. If they do happen then internal financial controls should also help to find out sooner and take necessary action. Some controls may also help the Company to achieve good value for money.

It is important that all individuals, whether trustees, staff or volunteers take the issue of internal financial controls seriously. Making controls work should not be seen as just the responsibility of one or two trustees or senior staff members, or applying to some but not others.

Internal controls should be adhered to and understood alongside wider organisational policies (e.g. Risk Management, Governance, Scheme of Delegation, etc.), and should be embedded across all operations.

Active Cheshire's internal controls aim to:

- Protect our assets;
- Identify and manage the risk of conflicts of interest, loss, waste, bribery, theft or fraud;
- Ensure that financial reporting is robust and of sufficient quality; and
- Ensure that the organisation (at all levels) complies with applicable legislation and regulation.





**Internal Financial Control Framework – Income**

Area	Recommended Control(s)	Active Cheshire Control(s)	Related Policies/Procedures
Income from public collections and fundraising events	<p>At least two people are involved in handling and recording the money received.</p> <p>Collection boxes are individually numbered and their issue and return is recorded.</p> <p>All collecting boxes are sealed before use so that it is apparent if they have been opened before they are returned.</p> <p>All collection boxes are regularly opened and the contents counted.</p> <p>General public collections are counted in the presence of the collectors and a numbered receipt given to them.</p> <p>Cash collected is banked by the charity as soon as possible without deduction of expenses.</p>	<p>Two people involved in recording income.</p> <p>Collection buckets signed in and out (see forms).</p> <p>Collection buckets are sealed.</p> <p>See sign-out and sign-in forms.</p> <p>Cash banked at earliest opportunity (see income policies).</p>	<p>Financial Reporting</p> <p>Revenue Recognition</p> <p>Bank Reconciliation</p> <p>Collection box protocol/process form</p> <p>Collection box sign-out form</p> <p>Collection box return form</p> <p>Collection box use record (register)</p>
Trading Income	<p>Regular reviews of trading activities to ensure that they fall within tax exemptions.</p> <p>Establishing a pricing policy for goods and services supplied including regular reviews of pricing structures to ensure appropriate cost recoveries.</p> <p>Invoicing procedures for all goods and services provided.</p> <p>Review of outstanding debts and debt collection procedures.</p> <p>Stock control procedures.</p>	<p>Annual audit includes review of tax exemptions and processes.</p> <p>Pricing structure in place.</p> <p>Invoicing procedures in place (see financial policies and procedures manual). See financial policies and procedures manual.</p> <p>N/A.</p>	<p>Compliance</p> <p>Scheme of Delegation</p> <p>Invoice Processing</p> <p>Bank Reconciliation</p>





	Procedures to reconcile amounts invoiced and cash received to outstanding invoices.	See financial policies and procedures manual.	
Banking Procedures	<p>Cheque and cash receipts should be promptly recorded in the accounting records.</p> <p>Cheques and cash should be banked regularly and promptly.</p> <p>Cheques and cash not banked on the day of receipt should be placed in a safe or locked cash box.</p> <p>Funds should normally be banked gross without deduction for costs or expenses.</p> <p>Insurance cover for cash in hand and in transit should be considered.</p>	<p>See financial policies and procedures manual.</p>	Bank Reconciliation
Income Records	<p>Records of cash and cheques received agree with bank paying-in slips or counter foils.</p> <p>Counter foils or paying-in slips agree with bank statements, both in terms of amount banked and date of credit.</p> <p>Transfer or other direct payments into the bank are identified and verified against supporting paperwork.</p>	<p>See financial policies and procedures manual.</p> <p>See financial policies and procedures manual.</p> <p>See financial policies and procedures manual.</p>	Bank Reconciliation





## Internal Financial Controls – Purchases & Payments

Area	Recommended Control(s)	Active Cheshire Control(s)	Related Policies/Procedures
Authorisation of expenditure on goods and services	<p>Establishing authority levels for placing orders and approving payments which are clear and preferably documented.</p> <p>Ensuring that orders placed are within an agreed spending plan or budget – additional spending outside agreed budgets should be authorised.</p> <p>Ensuring invoices received are checked against orders confirming the price paid and the receipt of the goods or services ordered.</p>	Scheme of delegation in place, alongside clear authorisation policies (see financial policies and procedures manual)	<p>Purchase Order Request Policy</p> <p>Invoice Processing</p> <p>Scheme of Delegation</p>
Authorisation of expenditure on grants	<p>The development of grant-making policies setting out the conditions and any restrictions applying to grant awarded. Policies may set priorities for activities or projects to be funded.</p> <p>Procedures for the review and approval of grant applications. Controls should include checks on the integrity of organisations or individuals to be funded.</p> <p>Establishing monitoring procedures to ensure grants have been used for the agreed purposes.</p>	<p>Scheme of delegation in place, alongside clear authorisation policies (see financial policies and procedures manual)</p> <p>Application process and guidelines, terms and conditions of investment in place.</p> <p>Project management processes in place.</p>	<p>Purchase Order Request Policy</p> <p>Invoice Processing</p> <p>Scheme of Delegation</p> <p>Active Cheshire Terms &amp; Conditions of Investment</p>
Payments by debit card, credit card, and charge cards	<p>Setting a clear policy for the use of payments cards, the criteria for their issue, spending limits and their security.</p> <p>Considering the need to place restrictions on, for instance, the types of retailers where the cards may be used (e.g. blocking their</p>	<p>Scheme of delegation and company credit card policies in place (see financial policies and procedures manual).</p> <p>See financial policies and procedures manual.</p>	<p>Scheme of Delegation</p> <p>Company Credit Cards (use)</p> <p>Company Credit Cards (reconciliation)</p> <p>Company Credit Card Issue Form</p>





	<p>use in restaurants, food retailers, or on certain websites).</p> <p>Communicating the policy for the use of payment cards clearly, in writing, to all trustees and staff using them.</p> <p>Ensuring payments cards are cancelled and destroyed, if the individual ceases to work for the charity or if the authorisation of the card's use is withdrawn.</p> <p>Ensuring that debit card expenditure is supported by a voucher and/or invoice and recorded and analysed in accounting records.</p> <p>Copies of all credit or charge card statements being sent directly to the charity's finance team and not the individual card holder. The statements are used to record and analyse transactions in the accounting records and are matched with supporting vouchers and invoices provided to, or obtained by, holders of cards.</p> <p>Periodic review of card use to ensure consistency of use with set policies.</p>	<p>See financial policies and procedures manual.</p>	
Payments by direct debit, standing order, and BACS	<p>Establish dual-authority protocols.</p> <p>Ensure that specifically authorised people are able to set up arrangements to make payments by direct debit, standing order, or BACS.</p>	<p>Dual authorisation in place for all banking transactions (see financial policies and procedures manual).</p> <p>Scheme of delegation in place.</p>	<p>Scheme of Delegation</p> <p>Electronic Banking</p>
Wages and Salaries	<p>Ensure that the records required by HMRC of PAYE deducted from the</p>	<p>Payroll processes in place (see financial policies and</p>	<p>Scheme of Delegation</p> <p>Payroll</p>





	<p>wages and salaries of employees are maintained.</p> <p>Ensure that statutory deductions are paid to HMRC as required and pension contributions paid across to the pensions provider promptly.</p> <p>Ensure that deadlines for year-end returns to HMRC are met including P35, P11D and P60 or the data required for 'real time information' submissions to HMRC are complete and submitted on a timely basis.</p> <p>Minimum wage legislation is adhered to.</p> <p>Only authorised or required deductions are made from pay.</p> <p>Each employee has a proper contract of employment and that individuals are not incorrectly classified as self-employed.</p> <p>Legal obligations in relation to pension scheme arrangements are met.</p>	<p>procedures manual) and overseen by Payroll Provider.</p> <p>Payroll processes in place (see financial policies and procedures manual) and overseen by Payroll Provider.</p> <p>Payroll processes in place (see financial policies and procedures manual) and overseen by Payroll Provider.</p> <p>Active Cheshire is a registered Living Wage employer.</p> <p>Payroll processes in place (see financial policies and procedures manual) and overseen by Payroll Provider.</p> <p>Appropriate HR files are held in relation to all employees (overseen by HR provider).</p> <p>Payroll processes in place (see financial policies and procedures manual) and overseen by Payroll Provider.</p>	
<p>Payment of reimbursements and expenses</p>	<p>A formal expense policy should exist, applying to all trustees, staff including the CEO and senior management and volunteers.</p> <p>The policy should be clearly communicated within the charity and included within the induction training.</p>	<p>Policy in place (see financial policies and procedures manual).</p> <p>Financial Policies and Procedures Manual, Employee Handbook, and Governance Manual all part of formal induction process for all staff/team members.</p>	<p>Scheme of Delegation</p> <p>Mileage &amp; Expenses</p>





	<p>Expense claims should be authorized by someone other than the claimant and checked for accuracy before payment.</p> <p>Expense claims should contain self-declaration that the claim is accurate and incurred in connection with the business of the charity.</p> <p>To minimise the charity's cash payments, reimbursement should be made by cheque or BACS transfer.</p> <p>Any mileage rate paid for motor travel should be at HMRC rates that do not result in a tax or national insurance liability for the charity or the claimant.</p>	<p>See financial policies and procedures manual.</p>	
Expenditure Records	<p>Records of payments (including direct debit, BACS, or standing orders) are checked periodically to cheque stubs, credit card statements or bank statements – these checks may often be carried out as part of the bank reconciliation process.</p> <p>Periodic checks are made to ensure payments are supported by invoices which have been properly authorised.</p> <p>Regular review of standing orders and direct debit payments are made to ensure payments remain in accordance with valid instructions given to the bank or building society.</p> <p>Expenditure from restricted funds is in line with the restriction placed on how funds are to be used.</p>	<p>See financial policies and procedures manual.</p>	<p>Financial Planning</p> <p>Bank Reconciliation</p> <p>Company Credit Cards (reconciliation)</p> <p>Invoice Processing</p>





<p>Assets and Investments</p>	<p>A financial threshold should be set for the capitalization of expenditure on fixed assets within the accounting records.</p> <p>A list or register should be maintained of all assets whether purchased by, or donated to, the charity for its continuing use. This record should show the cost (or value) of the asset and provide sufficient detail to enable an asset and its location to be identified.</p> <p>Fixed asset should be inspected at regular intervals to ensure that they exist, remain in good repair and are being put to appropriate use.</p> <p>The disposal or scrapping of fixed assets be appropriately authorised and recorded in accounting records and in any fixed asset register.</p> <p>The adequacy of insurance cover is reviewed at regular intervals.</p> <p>The boundaries of any land and building are secure and recorded appropriately with the Land Registry.</p> <p>The title deeds to land should be held securely and record adequately the charity's interest in the land.</p>	<p>See financial policies and procedures manual.</p> <p>See scheme of delegation.</p> <p>See scheme of delegation.</p> <p>See financial policies and procedures manual.</p> <p>See financial policies and procedures manual.</p> <p>N/A.</p> <p>N/A.</p>	<p>Governance Manual</p> <p>Scheme of Delegation</p>
<p>Cash held on deposit</p>	<p>Bank reconciliations are prepared at least monthly for all accounts, reviewed by a second person and any discrepancies resolved.</p> <p>Direct debits, standing orders and other transfers are checked monthly for correctness.</p> <p>The bank account(s) are operated in accordance with the agreement</p>	<p>See financial policies and procedures manual.</p> <p>See financial policies and procedures manual.</p>	<p>Governance Manual</p> <p>Financial Reporting</p> <p>Bank Reconciliation</p> <p>Scheme of Delegation</p>





	<p>with the issuing bank and are not used for money transfers for the private benefit of individuals or third parties under any circumstances.</p> <p>If acting as intermediary to transfer funds on behalf of another charity, the trustees are satisfied that the transaction is to further charitable activity and does not constitute money laundering.</p> <p>A list of all its bank accounts is kept and reviewed for dormant accounts which should be closed.</p> <p>The opening or closing of accounts should either be authorised by the whole trustee body, or if delegated, the trustees should be informed of changes.</p> <p>Third parties should not be allowed to open bank accounts in the charity's name, or use the charity's bank account to receive or transfer money.</p> <p>The costs and benefits of the current and deposit accounts held are regularly reviewed to ensure bank charges and/or rate of interest are competitive and that credit rating of the deposit taking institution is acceptable.</p>	<p>See financial policies and procedures manual.</p> <p>See scheme of delegation.</p> <p>See financial policies and procedures manual.</p> <p>See scheme of delegation.</p> <p>See financial policies and procedures manual.</p> <p>See financial policies and procedures manual.</p>	
Electronic Banking	<p>There should be a clear segregation of duties to prevent any single person from being able to control substantial resources or obtaining unauthorized access to account information.</p> <p>There should be proper approval for movements between, and payments from, bank accounts.</p>	<p>See financial policies and procedures manual.</p> <p>See financial policies and procedures manual.</p>	<p>Governance Manual</p> <p>Financial Policies &amp; Procedures Manual</p>





	<p>After each electronic banking transaction, a printout should be taken showing details of the transaction and stored as part of the accounting record.</p> <p>Retaining printouts of statements as part of the accounting records.</p>	<p>See financial policies and procedures manual.</p> <p>See financial policies and procedures manual.</p>	
Restricted Funds and Endowment Funds	Approval of expenditure from restricted fund may be limited to particular budget holders or staff.	See scheme of delegation and financial policies and procedures manual.	Scheme of Delegation Invoice Approval

