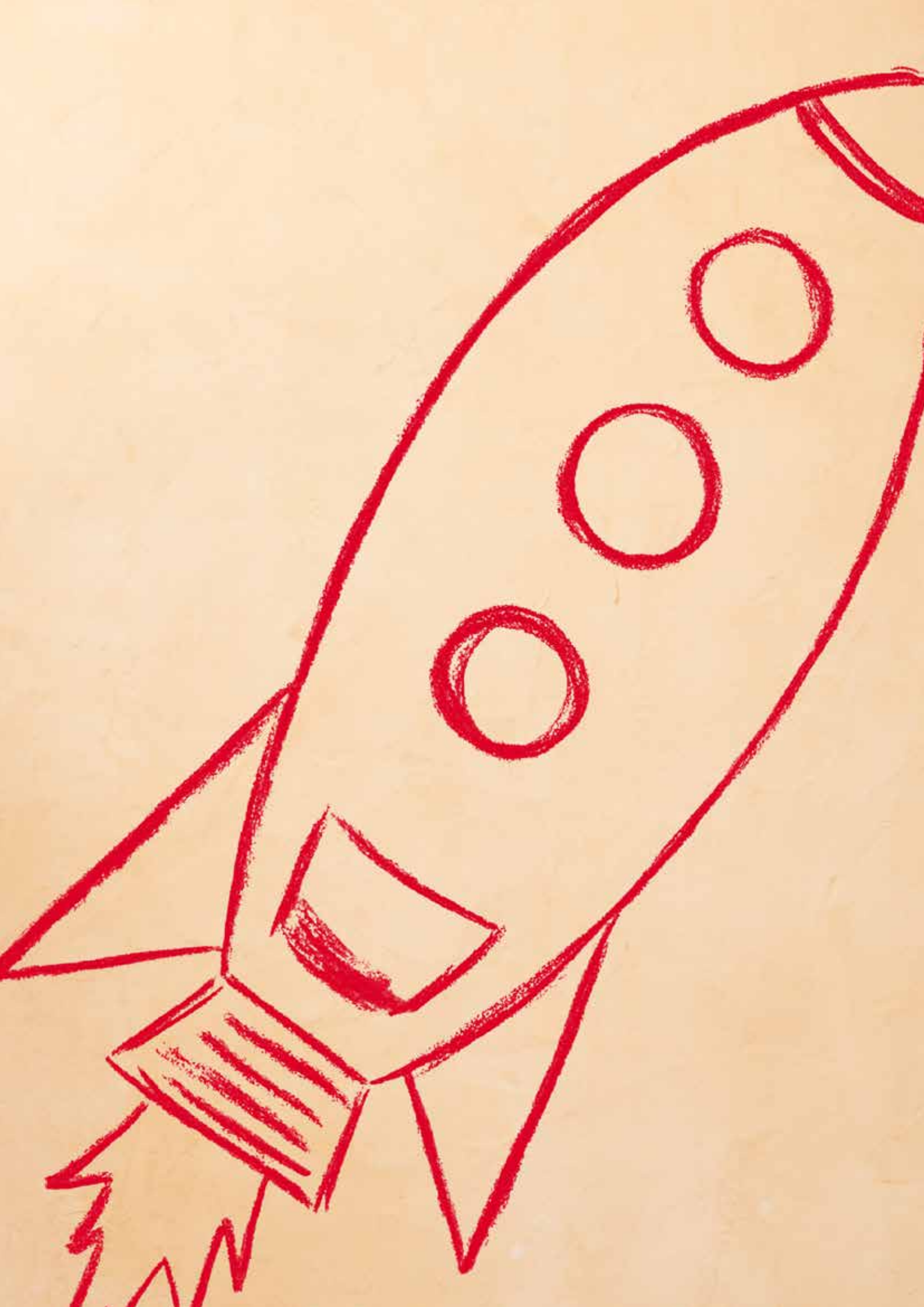
CHARITY COUNCIL

KPMG

NUS National University of Singapore | NUS BUSINESS SCHOOL

Influencing Risk and Risk Culture

Deriving value from adopting risk management practices in the charity sector



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Foreword

In the rapidly changing environment that we are living in today, organisations are facing new challenges at an unprecedented scale and pace.

Similar to corporate organisations, Charities today also need to manage a varied spectrum of uncertainties and risks. It is therefore important that Charities have the ability to manage their key risks to drive long term sustainability and effectiveness.

The recent update to the Code of Governance for Charities and Institutions of a Public Character (IPCs) ("the Code") introduced a new requirement under Financial Management and Internal Controls over risk management – Guideline 6.1.4, namely, that "the Board should ensure that there is a process to identify, regularly monitor and review the charity's key risks. This should cover mitigating measures and controls for all key risks".

A sound system of risk governance structure and risk management will help to reduce risk 'blind spots' and improve the effectiveness and consistency over how risks are managed within a Charity / IPC. A risk awareness culture across all levels of management and staff, and Board in a Charity / IPC is critical, and helps ensure that risks are identified and addressed in a timely manner.

The subject of Risk Management was mooted during the Charity Governance Conference in August 2015 and feedback was received from participants on the relevance of this topic to the Charity Sector.

With this in mind, the Charity Council, together with the National University of Singapore ("NUS") Business School and KPMG in Singapore ("KPMG"), conducted a survey to obtain insights on risk management practices within the Charity Sector.

The key aims of the research include establishing a baseline calibration on the Charities / IPCs' risk awareness, as well as the state of adoption of risk management practices across the Charity Sector. In addition, the survey also sheds some light on key challenges that Charities / IPCs face in implementing and maintaining their existing risk management programmes.

We hope that this report will help you to understand the current state and level of adoption of risk management in the Charity Sector today. Our hope is that this will raise your awareness and understanding as to what would constitute a sound system of risk management within a Charity.

We would like to thank all the individuals and Charities who participated in the survey for their time and invaluable contributions to the development of this report.

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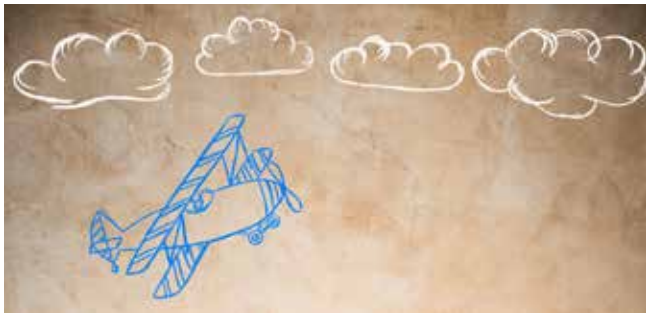
About the Survey

Objectives

The Charity Council, KPMG in Singapore and NUS Business School conducted a survey of the risk management practices among Charities in Singapore between September and October 2016. The purpose of the survey was to assess the current state of awareness of risk management in the Charity Sector. The end goal of the survey is to gather sufficient factual information on the state of risk management in the Charity Sector, so as to prescribe further help and guidance on risk management for Charities.



Survey demographics and methodology

The online survey was opened to all Charities / IPCs. The survey ran from 15 September to 21 October 2016, and we received 222 responses out of the 2,217 Charities / IPCs in Singapore, giving us a total response rate of 10.0%. The 222 responses included 139 IPCs, from a population of 633 IPCs in Singapore, giving a response rate of 22.0% for IPCs.

The sample of respondents provides a good coverage of the different types of Charities sponsored by the different Sector Administrators, except for the Peoples' Association which had a very low response rate. In addition, the respondents represent a wide spectrum of Charities in terms of the age of the Charity, gross annual receipts, number of employees and size of the management committee or Board.

This wide spectrum, together with their responses, allows us to draw general observations of the risk management attributes and practices of Charities in Singapore. The distribution of the respondents is summarised in Figures 1 to 6.

Figure 1: Distribution of respondents amongst the Sector Administrators

Figure 2: Distribution of respondents by types of Charity / IPC

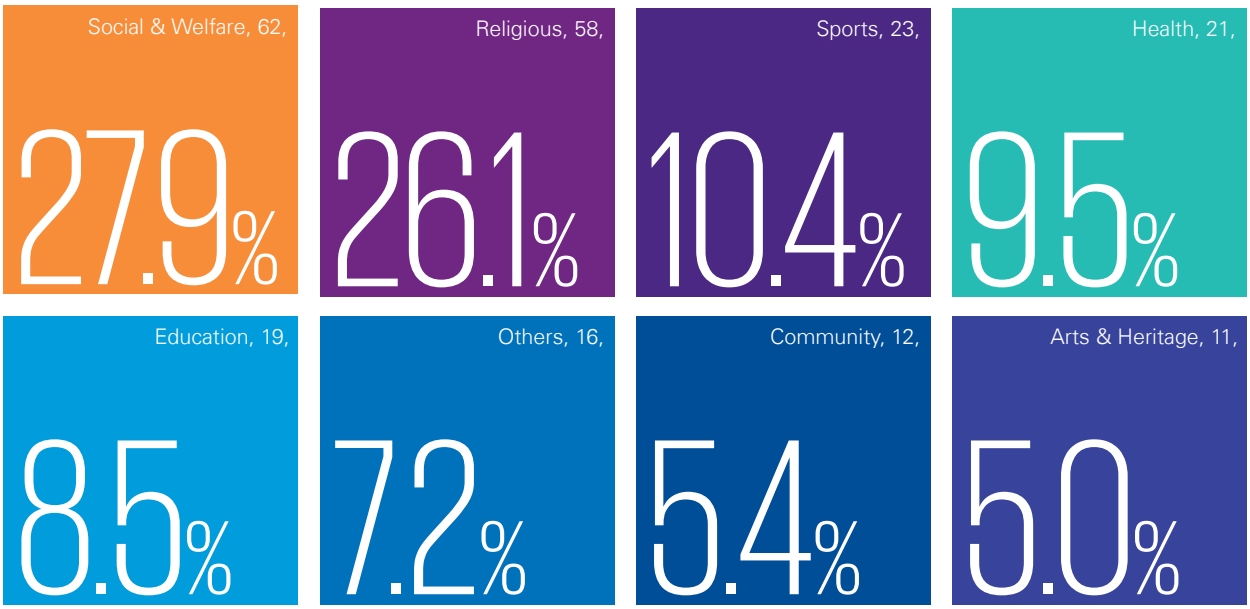


Figure 3: Distribution of respondents according to years of existence

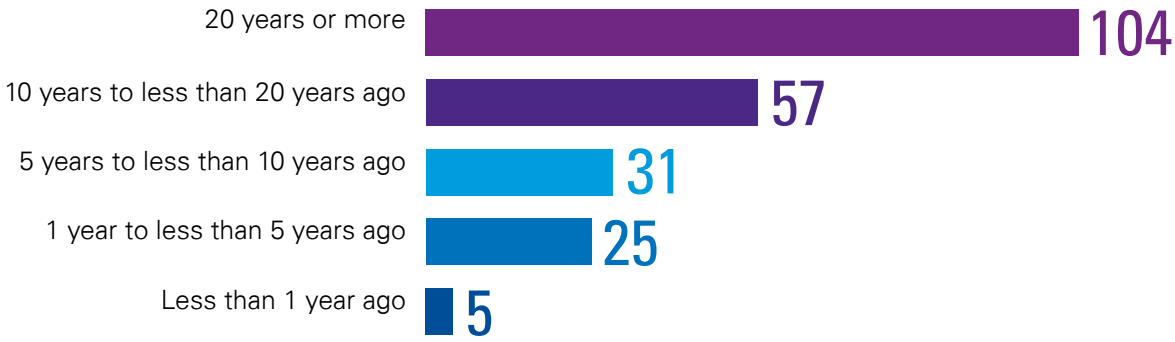


Figure 4: Distribution of respondents according to Gross Annual Receipts

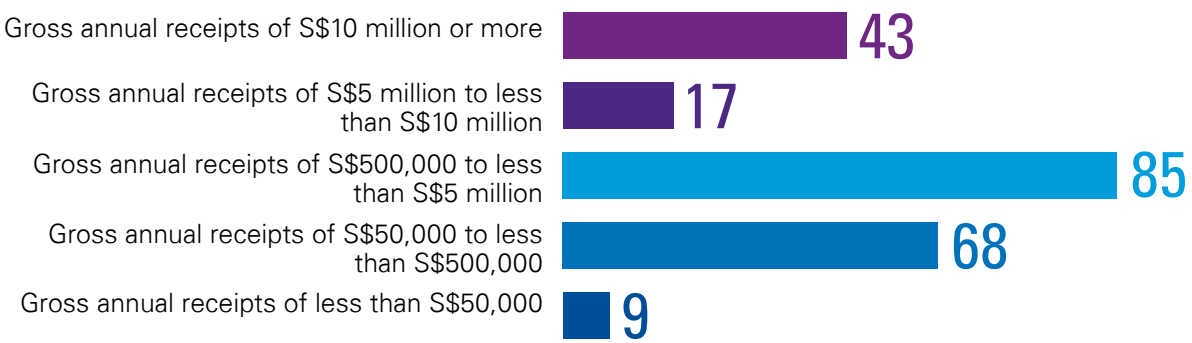


Figure 5: Distribution of Respondents according to the number of employees

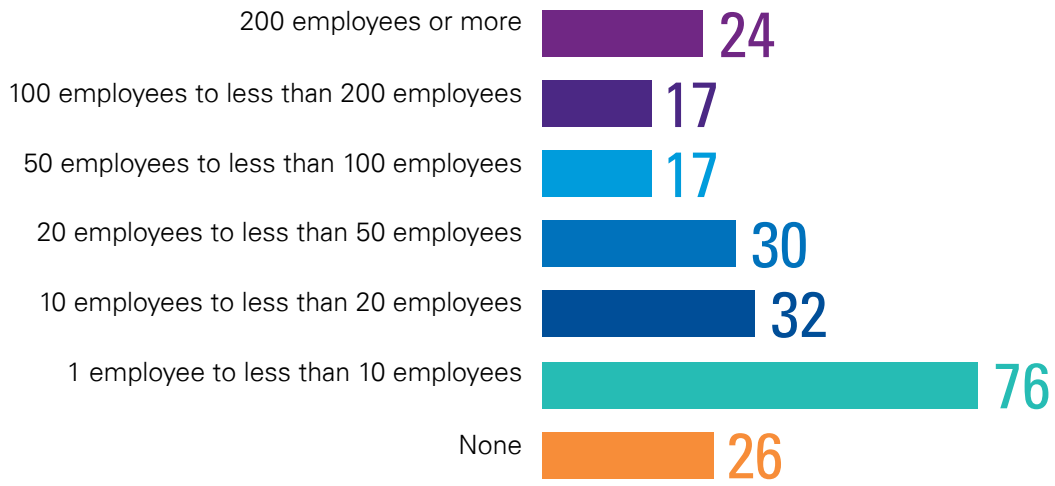
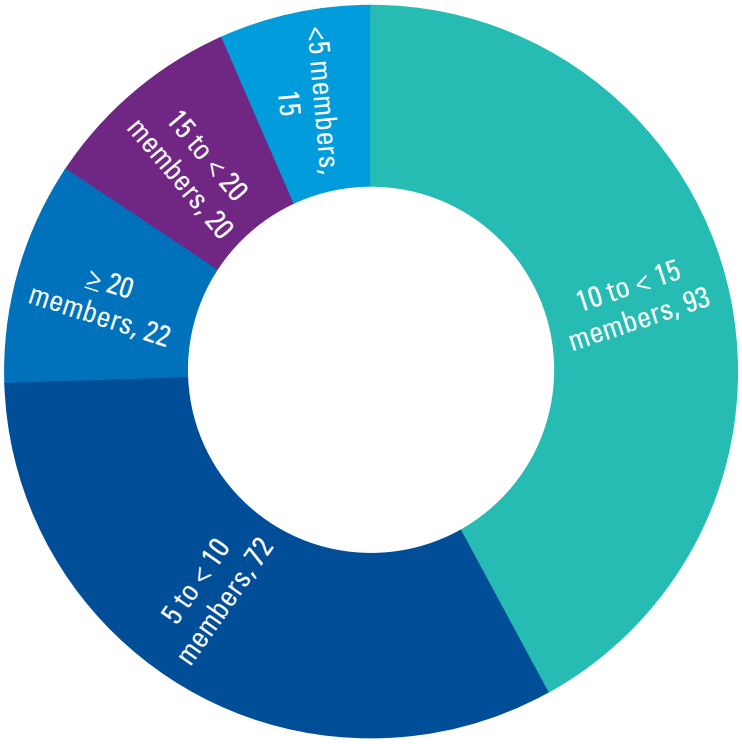


Figure 6: Distribution of respondents according to Management Committee or Board Size



Executive Summary

Risk management adoption – "Emergent stage"
The survey found that risk management adoption levels across the Charity Sector is still in an emergent stage. Based on the overwhelming number of respondents who indicated that no budget is being allocated to manage risks, it would appear that there is a low priority when it comes to adopting formalised risk management practices. This could, in part, be due to the low appreciation or awareness of the importance and relevance of risk management in Charities / IPCs.

More than 50% of these Charities do not have a risk management framework or risk management policies to manage their risks. The findings also pointed to an expectation for large Charities (revenue above S$10 million) to have a higher appreciation of risk management, and the resources to establish risk management policies.

Risk management culture – Lack of understanding of risk management benefits
Charities do not see the benefits in adopting risk management practices. We can attribute that to a general lack of awareness on risk management practices and risk mitigating measures. The survey also reveals that the risk management culture within the Charity Sector does not support or place importance on the need for risk management.

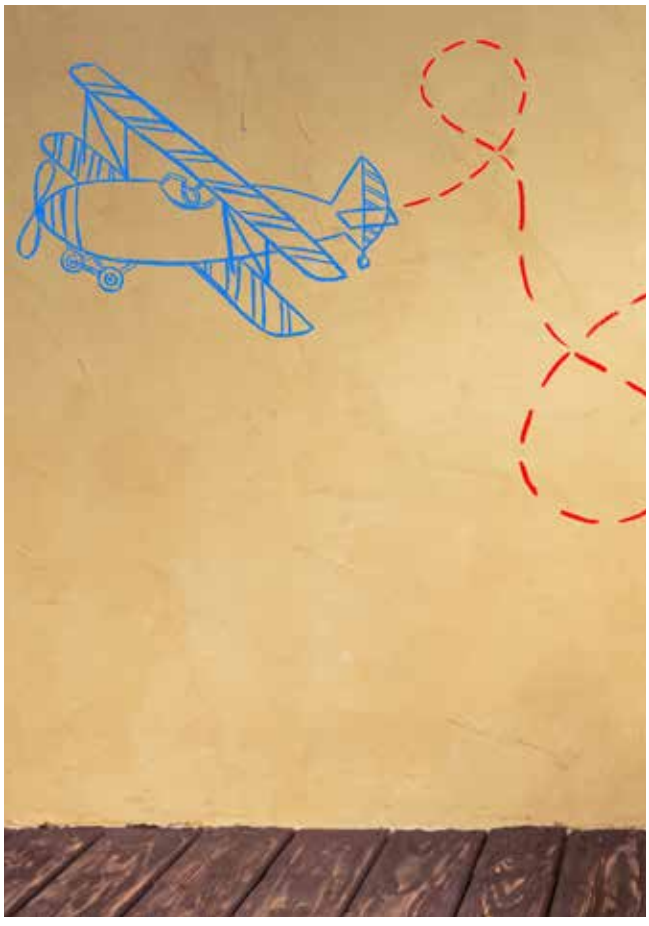
The governing boards of the Charities need to set the tone from the top and inculcate a strong risk management culture that supports risk management as one of the foundations of the Charity.

Risk governance structure – Greater clarity required on who is responsible for risk management
As risk affects the entire Charity, all employees are thus responsible and need to play their part in managing the Charity's risks. However, the survey shows otherwise as many respondents believe that risk management is not their responsibility but that of the Board, Audit Committee, CEO, CFO and Board Risk Committee. There were also respondents who believed that an outsourced vendor like a consulting or internal audit firm should be responsible for their Charity's risk management.

Charities need to take ownership of their own risk management process as the accountability for managing risks should rest with relevant management and staff as part of their day-to-day responsibilities, and should not be outsourced to an external party. In addition, the Board should be the ultimate gatekeeper or overseer in risk governance for a Charity.

Risk management practices – Better education and awareness building
Risk management practices are still in their infancy – more time and effort needs to be spent on educating Charities to increase their level of awareness and understanding. The survey also showed that Charities are still very financially focused, with respondents placing their highest importance on Financial Risk. Conversely, the least importance was identified as information technology risk despite operating in an era of IT inter-connectedness, innovation and change.

Implementing formal risk management practices will help Charities to pro-actively anticipate the changes and dangers on the horizon. This allows Charities to take the appropriate measures to respond to the associated emerging risks on a timely basis, whether these are financial, operational, compliance or information technology risks.



Key Findings

Current state of risk management adoption

Identifying and managing the possible risks that a Charity may face is part of effective governance for Charities. To manage risks effectively, the process of risk identification, assessment and reporting should be formalised in the form of a risk management framework. Such a framework will allow the Board and management to take a more structured and disciplined approach to managing risks, as well as enable more informed decision making when responding to risks.

There are various risk management frameworks that are available for Charities. Such frameworks may also be scalable, allowing a Charity to either adopt a framework in full or in part to suit their organisation's circumstances. KPMG's Global Enterprise Risk Management Framework (Figure 7) captures the key elements that organisations should consider when establishing a risk management framework and in disclosing how they manage risks.

Figure 7: KPMG's Global Enterprise Risk Management Framework

Risk management adoption is still in an emergent stage in the Charity sector

Our survey shows that only 21.2% of the respondents have a formal and regular risk assessment process while 55.4% of them use an informal approach. The remaining 23.4% of respondents either do not perform risk assessments or are unsure how this is to be done.

The 76.6% of respondents with formal or informal risk assessment processes were asked to select their perspectives towards risk management:

- 32.0% stated that risk management is essential and a high priority for their Charity;
- 27.9% stated that risk management is of moderate / low priority to their Charity because of resource constraints e.g. time, manpower, or expertise; and
- 26.1% stated that risk management is of moderate / low priority to their Charity because compliance with regulations is sufficient in managing risks.

An overwhelming 87.4% of the respondents do not allocate budget to support activities needed to manage their risk, for example, to engage a risk consultant and/or to document a risk register.

In one of the questions, respondents were asked whether their Charity had experienced any of the risk management issues or risk concerns. Figure 8 below shows that the results certainly warrant attention. There is a considerably low number of respondents who identified risk management issues as an area of concern. The results certainly warrants attention – there is a considerably low number of respondents who identified risk management issues as an area of concern. This ranged from the highest number of 87 respondents (39.2%) to 38 respondents (17.1%), and the results seem to allude to a state of denial among the respondents. Furthermore, this low identification rate seems to suggest that the respondents do not believe they have many risk management issues. Does this accurately reflect the real situation in their respective Charities?

Figure 8: Number of respondents on risk concerns*

Risk concern	Number of respondents	Percentage
Lack of awareness of risks and controls across the Charity	87	39.2%
Challenges in forming a view on the adequacy and effectiveness of risk management and internal controls of the Charity	73	32.9%
Internal audit has a limited scope focused on compliance (not risk based)	53	23.9%
Absence of internal audit	42	18.9%
Lack of coordination across functions / departments managing key risks and controls resulting in duplication of effort (e.g. risk assessments, compliance activities etc.)	39	17.6%
Lagging behind industry practice regarding risk management, internal controls and internal audit	38	17.1%
Resources are not allocated efficiently to areas of greatest need (key risk areas)	38	17.1%

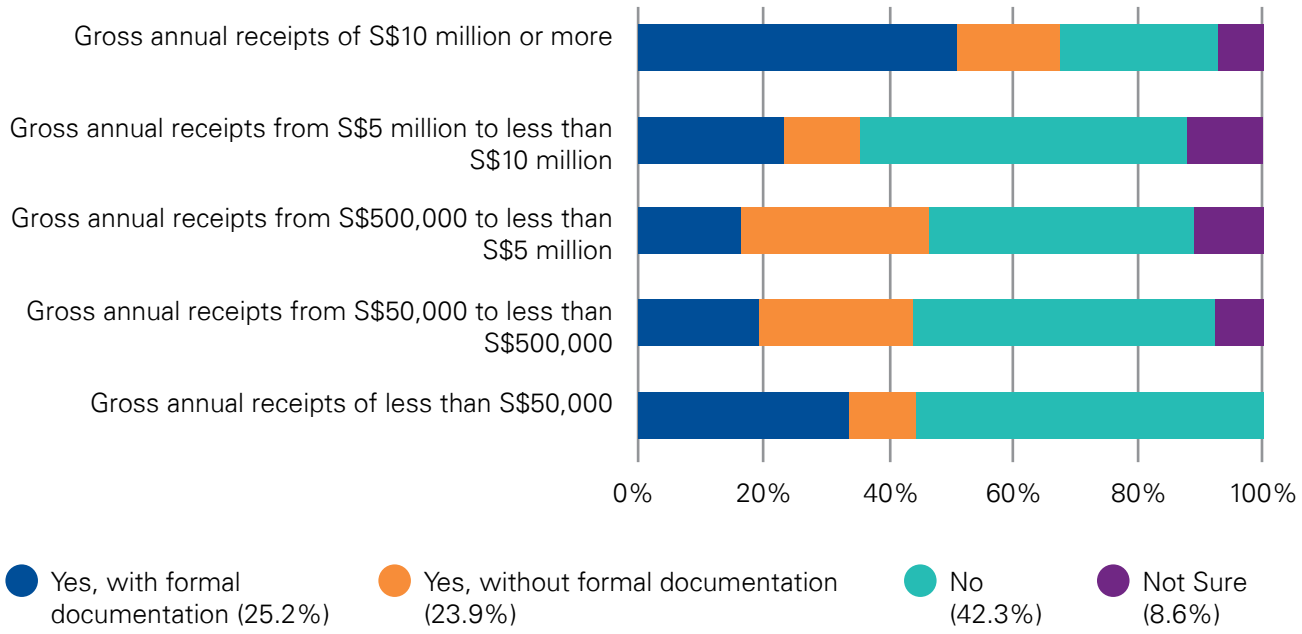
This may also suggest that the respondents have mixed views on risk management, which is evident in the inconsistencies in responses provided in the survey. If so, this further underlines the importance of increased risk management awareness in the Charity Sector.

* Respondents were able to select more than one risk concern.

No formally defined policy / approach to manage risk

50.9% of the respondents either do not have a formally defined policy / approach to managing risk within their Charities, or they are unsure if such a policy exists. Figure 9 shows the responses in relation to the existence of a formally defined policy / approach to managing risk vis-à-vis the gross annual receipts of the Charity. The results show that the existence of such a policy is more prevalent in Charities with annual revenues of more than S$10 million.

Figure 9: Is there a formally defined policy / approach to manage risks within your organisation?



The respondents were asked about their risk awareness and to give a score of 1 for "no awareness" and 10 for "very high awareness". Respondents rated themselves an average of 6.3. Interestingly, respondents gave an average of 5.9 for Charities in their own sector and an average of 5.7 for Charities in general. This suggests that respondents have a better perception of their risk awareness vis-à-vis other Charities in their sector and Charities in general.

Current state of risk culture

Risk culture is an emerging area in risk management that essentially encompasses the staff's belief, norms and values in relation to risks. Risk culture is fundamental to a Charity's management of risk as it directly affects the manner in which individuals in the Charity approach decision making. A strong risk culture supports risk management while a weak risk culture is a risk itself.

However, our survey showed that there is a general lack of understanding of the benefits of risk management, which is an essential element for any organisation aiming to promote a strong risk culture.

Lack of understanding of the benefits of risk management

59.4% of the respondents stated that their employees do not understand how they can benefit from the management of risks, or are unsure.

Communication between key functions involved in managing risks in the Charity was also assessed by the respondents, and only 31.5% stated that open and transparent communication through regular and structured interaction is carried out. Most of the respondents (42.3%) stated that communication is done on a "need to know" basis, and 15.3% stated that communication is fragmented and unstructured with some functions co-ordinating better than others.

One third of the respondents (33.8%) stated that they were either unsure if their Charity had a risk management function / team, or that no staff were involved in risk management. In addition, 27.5% replied that their risk management function consists of one full-time employee equivalent.

The three most prevalent risk management challenges faced by the respondents are:

- 79.3% : "Lack of experience / expertise in risk management"
- 70.3% : "Lack of human resources e.g. limited extent of segregation of duties"
- 59.0% : "Lack of financial resources to carry out risk management activities"

The above suggests that there is a gap in the understanding and appreciation of risk management within Charities.

Current state of governance structures

KPMG in Singapore's 4 Lines of Defence Model (Figure 10) serves as a useful basis to understand the key elements of and roles within the overarching risk governance and oversight structure. The Model highlights that the respective business owner is the first line of defence in identifying and mitigating risks by establishing polices and implementing operational / financial governance. Additional risk management functions and activities by the management form the second line of defence while Internal Audit and other independent assurance functions form the third line of defence. Finally, the Board and Board Committee structures form the fourth line of defence.

The elements of the 4 Lines of Defence were explored in our survey, and the related key findings are as follows.

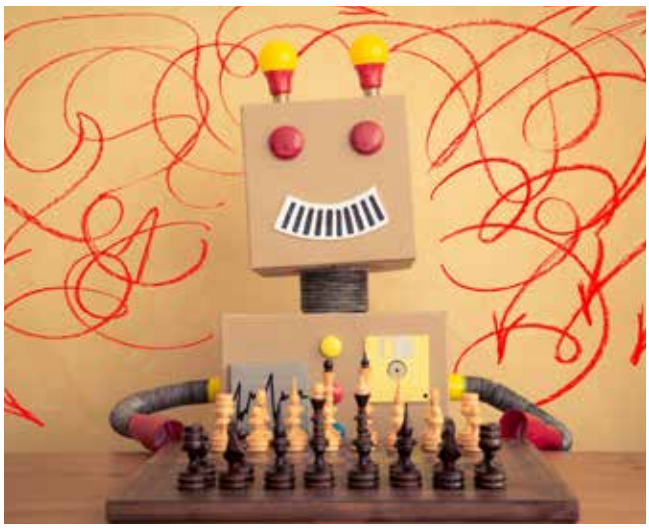
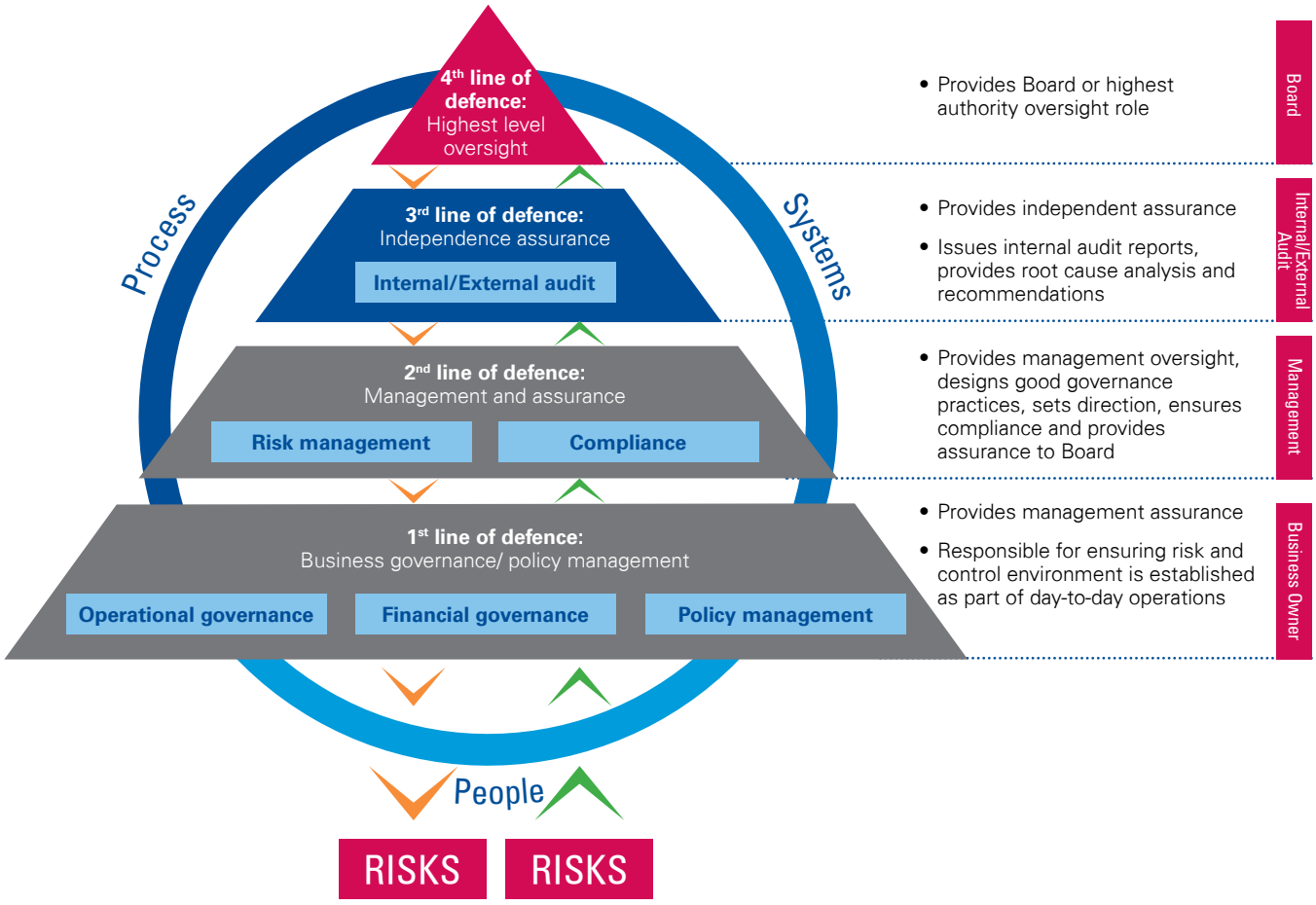


Figure 10: KPMG in Singapore's 4 Lines of Defence Model

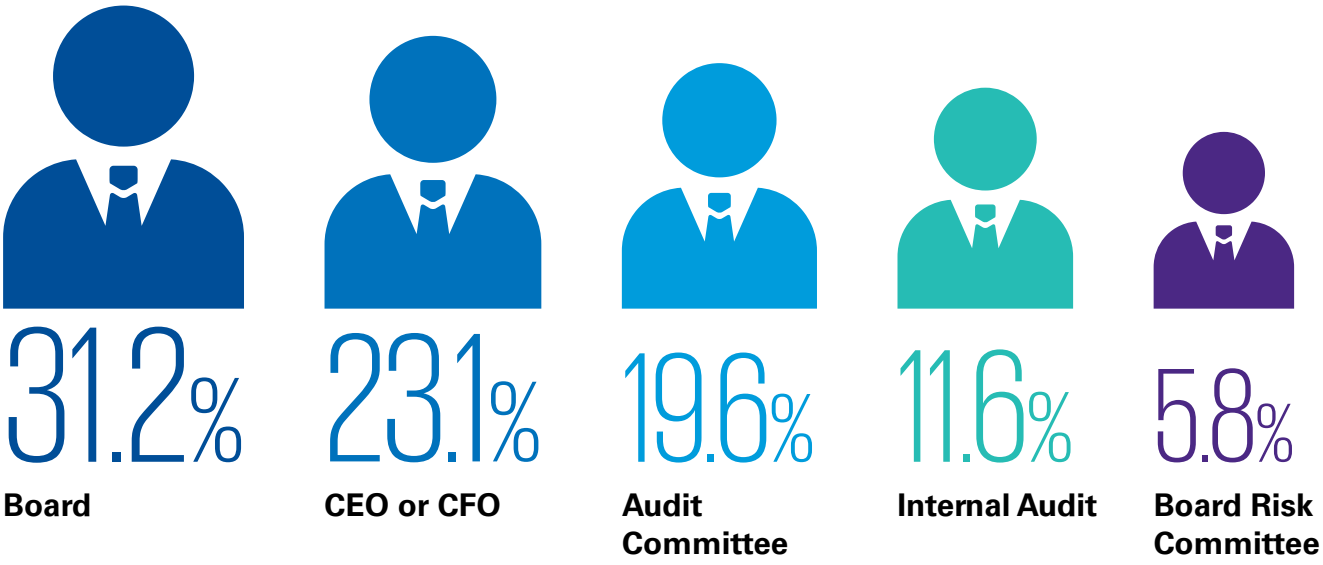


Greater clarity is needed on who is responsible for risk management

Our survey found that respondents are divided or unsure about who are the parties responsible for risk management.

56.6% of the respondents stated that the Board (31.2%) or sub-committees (Audit committee – 19.6%; Internal audit – 11.6%, Board Risk Committee – 5.8%) were responsible, whereas 23.1% indicated that senior management (CEO or CFO) are responsible for risk management within their Charity (Figure 11).

Figure 11: Who is primarily responsible for risk management in your Charity?



For respondents who do not see the need to assign a staff to be responsible for risk management, the following are some of the reasons provided:

- Board and management deemed to be able to fulfil this function;
- Charity size is very small;
- Insufficient resources;
- The Charity does not have the knowledge or skill to work in this area; and
- The Charity does not engage or participate in risky propositions or programmes.

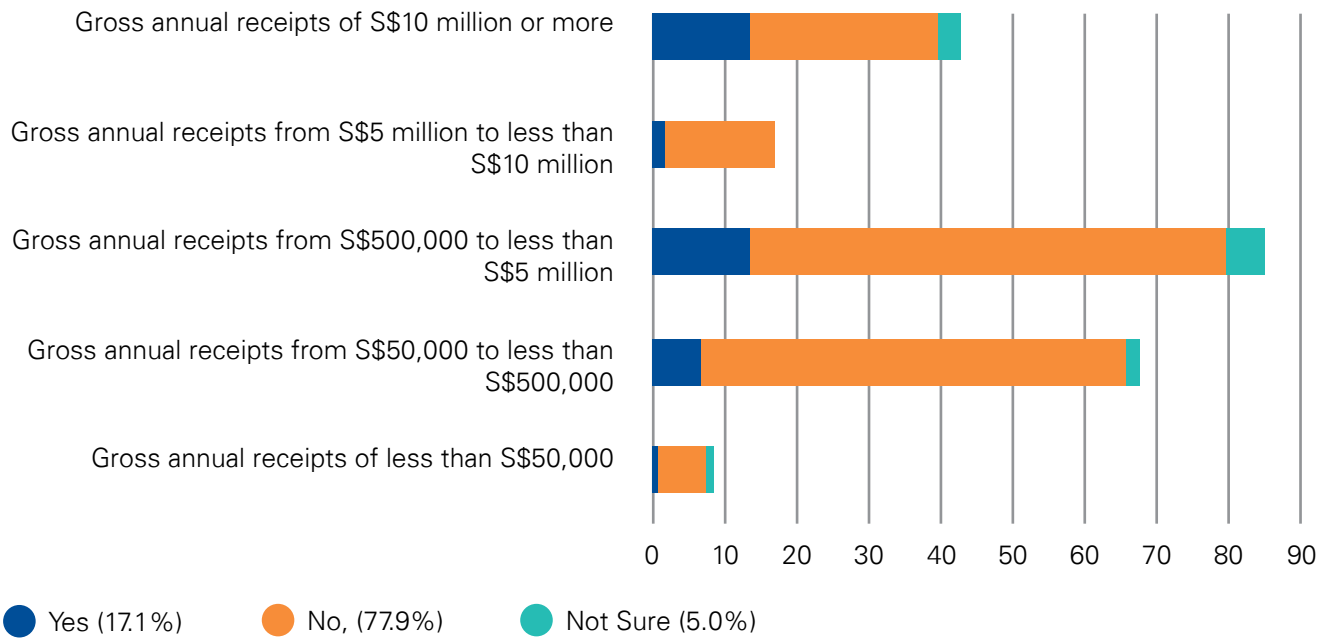
Figure 12: How is the risk management function structured in your charity?

On how risk management functions are structured in Charities, 18.5% and 17.6% of the respondents stated that the risk management function is undertaken by the Board and management respectively (Figure 12). However, 31.5% of the respondents stated that the risk management function in their Charity is structured through the Internal Audit function. This suggests that the respondents are relying on Internal Audit to perform the risk management function, which is a common misconception (that internal audit and risk management are the same).

No dedicated risk management function / personnel

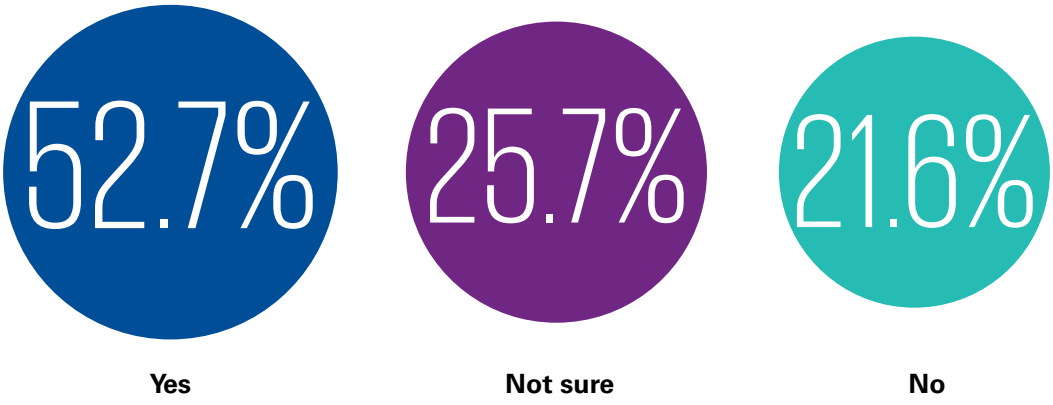
When the respondents were asked about the existence of dedicated risk management function / personnel in their Charity, only 17.1% (Figure 13) replied in an affirmative manner. The incidence of existence is higher for larger Charities.

Figure 13: Does your charity have a dedicated risk management function / personnel?



52.7% of the respondents hold their employees accountable for meeting their risk management responsibilities (Figure 14). This seems to suggest that the respondents expect employees to be responsible for risk management and yet somehow they have limited knowledge about what risk management is or how to conduct risk management activities.

Figure 14: Are your employees held accountable for meeting their risk management responsibilities?



For respondents who do not hold their employees accountable for risk management responsibilities, some of the reasons given were:

- Lack of expertise and knowledge;
- No formal system in place;
- No risk management framework;
- Not part of the employees' KPIs; and
- No clearly defined risk management responsibilities within the Charity.

Current state of risk management practices

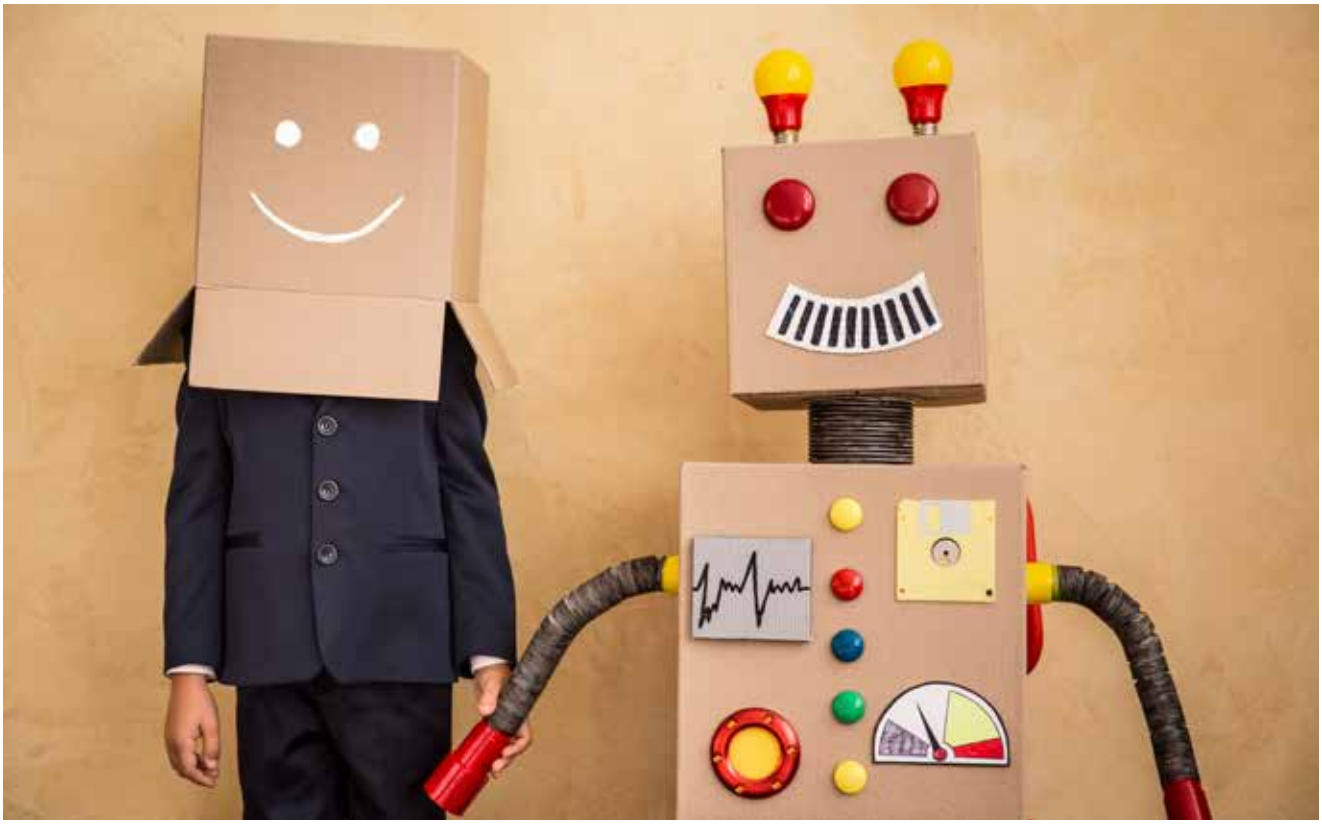
In our earlier sections, we suggested that there is a lack of a formal risk management framework, a lack of understanding of risk management processes and a low appreciation of the value of risk management. The findings showed that respondents were able to understand and identify the importance of the articulated risk when considering a list of possible risks faced by a Charity. However, when the respondents were asked about the risk mitigating measures and controls over the risk identified, the positive affirmative result was inconsistent with the results from the rest of the survey. This further supports the need for education to target at enhancing the awareness of risk management among Charities.

Need to enhance awareness of the risk identification and assessment

The respondents were asked to rank the Charity's risk exposure over five categories of risk with 1 being the most important and 5 being the least important. Figure 15 shows the relative importance of the five categories of risk.

Figure 15: Relative Importance of the five categories of risk (1 - most important; 5 - least important)

The respondents on average ranked financial risk (2.2) as the most important, followed jointly by operational (2.8) and strategic risks (2.8). Interestingly, the respondents saw information technology risk on average to be least important.



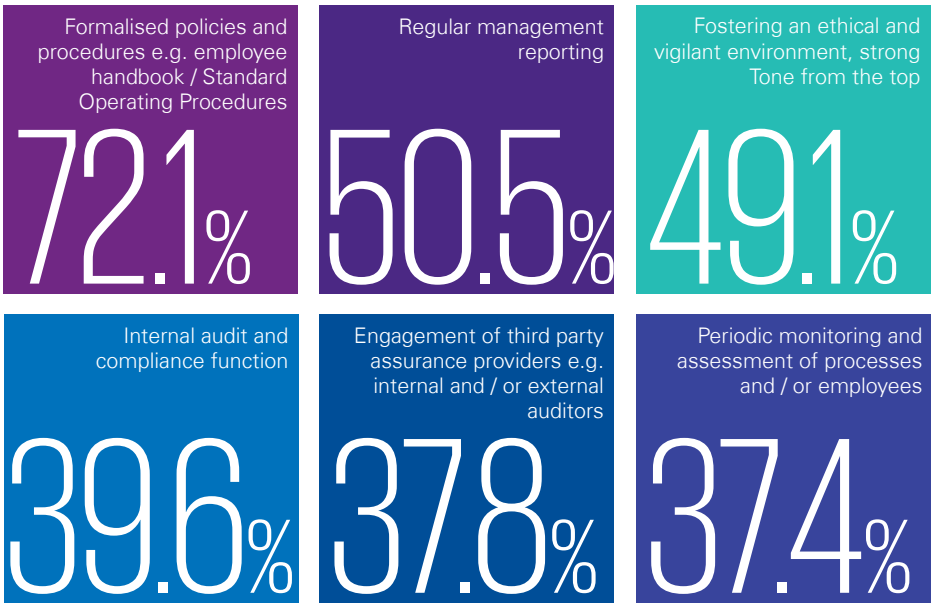
For each of the five categories of risk, the respondents were asked to select the top three risks within each category. Figure 16 below shows the response rate for the individual risks identified.

Figure 16: Categories of risk and top three for each category

Types of risk	Individual risk	Number of respondents	Percentage
 **Strategic risk**	• Risk of changes in donors' behaviour, increased reluctance to make donations	147	66.2%
	• Risk of changes in the government's policy, affecting grants or contracts	137	61.7%
	• Key man risk	116	52.3%
 **Financial risk**	• Funding risk	200	90.1%
	• Accounting and reporting risk	168	75.7%
	• Cashflow risk and/or liquidity risk	155	69.8%
 **Operational risk**	• Employee risk e.g. retention, disgruntled employees	174	78.4%
	• Adverse events risk (internal and external)	163	73.4%
	• Volunteer risk e.g. lack of volunteer training, over-reliance on volunteers	159	71.6%
 **Information technology risk**	• Risk of losing confidential data	179	80.6%
	• Risk of data corruption	164	73.9%
	• Network intrusion and security risk: malware, ransomware, hacking, DDoS Attack, Website defacement	140	63.1%
 **Compliance risk**	• Non-compliance with established laws, and regulations risk	205	92.3%
	• Risk of violation of Personal Data Protection Act	204	91.9%
	• Conflict of interest e.g. related party transactions not at arm's length	187	84.2%

Given the understanding of the risk of a Charity, the respondents were asked which measures are most substantially adopted by their Charity in mitigating the risks identified. The responses are summarised in Figure 17.

Figure 17: Measures adopted to mitigate risk identified



Having formalised policies and procedures is the most preferred risk mitigation method. The respondents also revealed that they do have documented procedures which help them to mitigate risks. Figure 18 shows the information on the top five documentation of procedures.

Figure 18: Top 5 documentation of procedures

Documentation of procedures	Number of respondents	Percentage
Procedures to process payment e.g. matching of supporting documents, invalidation of paid invoices / receipts	190	85.6%
Procedures to approve purchases / expenses e.g. purchase approval matrix	189	85.1%
Governing instruments with a guide on Board's composition, election or appointment process, objectives and tenure of its office bearers	187	84.2%
Budgets (annually / quarterly / monthly) and budget variance analysis	178	80.2%
Conflict of interest policies and procedures	168	75.7%

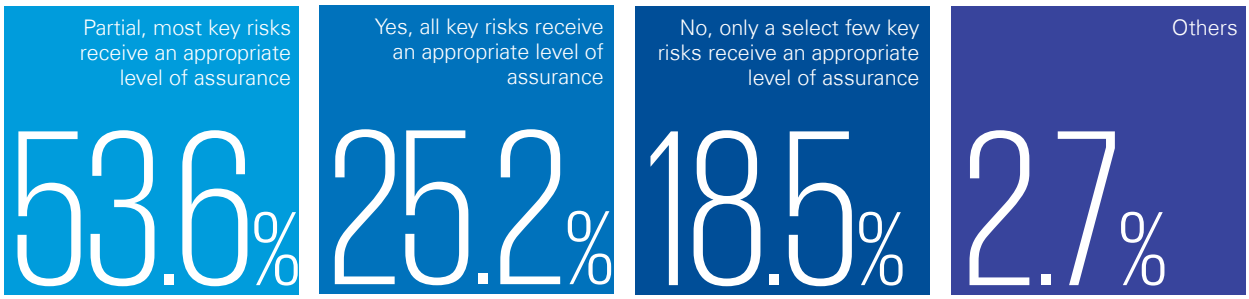
Respondents were also asked about the main type of insurance which the Charity bought. Figure 19 shows the top five types of insurance bought by the respondent's Charity.

Figure 19: Top five types of insurance purchased by the respondents

Types of insurance	Number of respondents	Percentage
General liability insurance	145	65.3%
Public liability	141	63.5%
Property insurance (including natural disaster and/or acts of God)	132	59.5%
Accident compensation insurance	119	53.6%
Money and theft insurance	111	50.0%

The respondents were asked to consider the levels of their assurance received in relation to key risks facing their Charity, i.e. the existence of risk mitigating measures and controls. Figure 20 summarises the responses.

Figure 20: Level of assurance over control of risk



Surprisingly, 78.8% of the respondents believed that they have full or partial levels of assurance for the selected key risks. This response is inconsistent with the general findings in this survey, namely a low awareness of risk management practices. This further supports the need for education and training in this area for Charities.

Conclusion

Charities, as community organisations working for the benefit of the public, are accountable to the public and other stakeholders. The Charity Council has strongly encouraged Charities to apply good governance practices as they affect how a Charity is run and the services that it provides. Adopting more transparent risk management practices and a stronger risk culture form part of this governance journey.

Although our survey showed that Charities' attitude towards risk management remains at an emergent stage, it is encouraging to see the overwhelming responses and interest shown by Charities on this topic when the Charity Council first held its session on risk management in August 2015. The general sensing also highlights that there is a zero tolerance on fraud risk, including mismanagement of a Charity's funds and resources. However, risk management is more than managing fraud risk.

Risk management is also not a one-off exercise. It requires day-to-day, pro-active attention to identify, assess and monitor risks, and ensure that the appropriate risk mitigating measures are adequate and working effectively. It also requires commitment from all stakeholders, with Board members or Trustees taking on the oversight role, and management and all employees being responsible for implementation. Communication on risk management needs to extend to staff at all levels so as to inculcate a strong risk management culture and risk awareness.

We mentioned that risk management culture is an emerging area which essentially encompasses the staff's belief, norms and values in relation to risks. The Charity Sector propagates not just "doing good" but also "doing good well". Risk management culture is therefore fundamental to a Charity's management of risk as it directly affects the manner in which individuals at the Charity approach decision making. A strong risk management culture supports risk management while a weak risk management culture is a risk itself. Setting the right tone at the top then becomes a critical priority in Charities; establishing a strong risk management culture to embed risk management into the daily activities is paramount.

With the right influencing and communication done, the next aspect is to build capabilities, and up skill the Charity Sector. In the recent 2017 Budget, the Singapore Government has pledged to continue the VWOs-Charities Capability Fund ("VCF"). Such a commitment provides assistance to the sector to cultivate a risk management culture as well as control consciousness through training, education and awareness-building.

To help the Charities, especially those with limited resources, to overcome the challenges in adopting better risk management practices, the Charity Council has worked with the business community to roll out a toolkit on risk management practices. Training programmes and workshops will be introduced and Charities are encouraged to tap on training or education funding and grants, such as VCF.

Ultimately, the Charity Sector needs to be self-reliant; only through its own understanding and appreciation of the benefits of risk management practices can the value of risk management be derived.

About Us

Charity Council

The Charity Council aims to promote and encourage the adoption of good governance and best practices, to help enhance public confidence and promote self-regulation in the charity sector. It also aims to help build capabilities of charities and IPCS to enable them to comply with regulatory requirements and enhance public accountability. In addition, the Council advises the Commissioner of Charities (COC) on key regulatory issues such as proposals on new regulations, where there may be broad-ranging impact on charities and IPCs.

The Charity Council comprises 15 members, including the Chairman. 10 members are from the people sector, chose for their expertise in accountancy, corporate governance, entrepreneurship and law. They are also involved in volunteer and charity work in varied fields such as arts and heritage, community, education, health and social services.

KPMG

KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. The KPMG network operates in 152 countries, with more than 189,000 people working in member firms around the world. In the ASEAN region, member firms operate across all 10 countries of this regional grouping providing professional services supporting the growth, compliance and performance objectives of their clients.

KPMG's experience and investment in the Charities/IPCs sector translates to specialised knowledge that can help meet the sector's specific needs. Its dedicated team of professionals in Risk Consulting has assisted the Sector Administrators from the various ministries in reviewing more than 100 Charities/IPCs since the enactment of the Charity's rules and regulations, and has made recommendations to improve the governance, risk and compliance framework in these Charities and IPCs.

NUS Business School

The National University of Singapore (NUS) Business School is known for providing management thought leadership from an Asian perspective, enabling its students and corporate partners to leverage global knowledge and Asian insights.

The school has consistently received top rankings in the Asia-Pacific region by independent publications and agencies, such as The Financial Times, Economist Intelligence Unit, and QS Top MBA, in recognition of the quality of its programmes, faculty research and graduates. In the Financial Times Global Rankings, the NUS MBA was ranked 26th in 2017, while the NUS-UCLA Executive MBA and Asia-Pacific Executive MBA were ranked 6th and 17th respectively in 2016.

In the biannual Forbes rankings for two-year MBA programmes, NUS Business School was ranked 7th among business schools outside the United States in 2015. Quacquarelli Symonds (QS) has also ranked the school 12th in the world for accounting and finance.

The school is accredited by AACSB International (Association to Advance Collegiate Schools of Business) and EQUIS (European Quality Improvement System), endorsements that the school has met the highest standards for business education. The school is also a member of the GMAC Council, Executive MBA Council, Partnership in Management (PIM) and CEMS (Community of European Management Schools).

Notes

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