Financial and Risk Management Cheat Sheet

Key financial indicators

Monitoring financials has two sides: ensuring resources are being used as directed and ensuring that the use of resources is sustainable into the future. There are some key indicators board should watch for. Keep in mind that while boards should not focus on small details, there sometimes is value in diving deeper into financial reports. Generally though, boards should be on the lookout for deviations from expectations, and trends that may carry on into the future.

The two financial reports boards will review most often are the income statement and the balance sheet. The income statement is broken down into revenues and expenditures and covers a period of time such as a month, a quarter, or a year. The balance sheet captures a specific point in time and is broken down into assets (what the divisions owns) and liabilities (what the division owes).

What to look for in the income statement:

- The income statement should be compared directly to the budget, which prescribes spending over a certain period of time.
- Substantial deviations from the budget: deviations mean budget direction is either not being followed, or there is another reason why.
- The bottom line, that is the financial surplus or deficit for the period: if there is a substantial deficit, how will this be covered? If there is a surplus, where will it go?

What to look for in the balance sheet

- How much cash or liquid assets are on hand. Too little cash or liquid assets could make life difficult.
- How much is there in the receivables category (money that your organization needs to collect): does your organization have a plan to collect this money? Are there concerns it won't be collected?
- How much is there in the payables category (money that your organization owes to others): does your organization have a plan to pay this money? Are there risks to delaying payments?
- Do the assets and liabilities balance: assets = liabilities + retained surplus. Does everything match up to this in the balance sheet?

Boards should explicitly determine what financial information the board or an audit committee needs to receive in terms of reports. A different visual representation such as a graph or pie chart is helpful. It is often easier to notice trends and deviations through these types of media. At the very least, having financial reports presented in different manners will better ensure every board member understands them, regardless of their financial acumen.

Risk Management

Your risk management process should contain five parts:

- **Identify the risk:** what is the risk and whose responsibility is it
- **Evaluate the risk:** what is the likelihood of the risk occurring and the severity of impact if it does
- **Manage the risk:** ensure risk mitigation and management measures as needed to keep the risk at tolerable levels
- **Monitor the risk:** ensure that the risk mitigation and management measures are being implemented and working as desired
- **Report the risk**: ensure an effective reporting structure to be able to effectively monitor outcomes

Identify the Risk - risk categories

- **Brand and reputation:** the risk of losing community trust and support, poor perceptions of products, services, or staff, or poor handling of concerns and complaints
- **Financial and credit:** the risks of assets being lost, stolen, or misappropriated, of financial records not being kept properly and within guidelines, or of not having access to liquid assets
- **Human resources**: the risk of being unable to attract and retain competent and qualified staff, provide effective staff development, and plan for succession into leadership positions
- **Competition risk:** growth in competition in the market
- **Governance:** this involves the work of the board which could include them not following legislation or best practices, conflict, and inability to make effective decisions
- **Strategic:** not being able to set or accomplish long-term goals, inability to set or implement organizational-wide plans,
- **Privacy and technology:** the risk of releasing private information or not keeping up with technological changes

Evaluate the Risk – the heat map

Risks found in the top right, where both the impact and likelihood are high, likely need a larger effort to mitigate than ones in the bottom left.

LIKELIHOOD					
CERTAIN	Low	Moderate	High	Extreme	Extreme
LIKELY	Low	Moderate	High	High	Extreme
POSSIBLE	Low	Moderate	Moderate	High	High
UNLIKELY	Low	Low	Moderate	Moderate	Moderate
RARE	Low	Low	Low	Low	Low
	INSIGNIFICANT	MINOR	SIGNIFICANT	MAJOR	CATASTROPHIC

SIGNIFICANCE

Manage the Risk – the actions

- Create policies that cover various activities
- Provide training
- Ensure the right leadership
- Review gaps in protocols that can mitigate risk
- Conduct audits
- Ensure effective communication systems and leadership hierarchies
- Upgrade infrastructure

Monitor the Risk – keeping track

- Are the risks occurring?
- How effective has been our response?
- How effective has been our mitigation?
- What has the audit found?

Report the Risk – to those responsible and accountable for the risks

- Reporting to the senior administration
- Reporting to the board or to a committee of the board
- Report on what has been found in the monitoring stage
- Review the entire process with the new information