FREEHEARTS AFRICA REACH OUT FOUNDATION (FAROF)

RISK MANAGEMENT POLICY

FAROF 2024

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1. INTRODUCTION

FAROF often deals with particularly high-risk activities during its efforts to assist vulnerable people in need of support. Guided by the Fundamental Principles, FAROF sometimes enters conflict prone areas, is on the frontline of disasters and crises, including health emergencies and pandemics, and sometimes assists those with higher risk behavioral issues. Risk management supports the organization in adjusting its overall strategy, priorities, and objectives with time. A corporate and systematic process to manage and take calculated risks, enables FAROF to explore opportunities and to reduce its exposure to unwanted and unnecessary threats. Risk management is one of the cornerstones of FAROF's good governance and sound management structures. The effective implementation of risk management at strategic, operational, and programmatic levels will help improve the performance of the organization and enhance FAROF's ability to achieve its objectives.

2. RISK MANAGEMENT OBJECTIVES

FAROF's objectives in relation to risk management are to:

- Develop an appropriate risk appetite.
- Adopt good practice in the anticipation, timely identification, evaluation and cost-effective control of risk in carrying out both normal and extraordinary business activities.
- Ensure that adverse risks are either avoided, reduced to an acceptable level, or managed and contained; and to do so in good time and on a continuous basis.
- Support individual members of staff and teams to take appropriate risk-based decisions, encouraging responsible intellectual risk-taking, informed by an understanding of risk and reward and supported by senior colleagues where necessary.
- Ensure business continuity wherever possible and respond effectively when this is threatened. Enable a robust audit trail to demonstrate that we are capable of managing risk.
- Focus risk assessment and management on the highest level of threats to our ability to achieve our strategic objectives; and opportunities to promote them.
- Assure funders/investors that there is a robust approach in place to assess and manage risk.

3. PRINCIPLES AND COMMITMENT TO RISK MANAGEMENT

- Risk management is everyone's responsibility
- FAROF is committed to the management of risks as an integral part of its strategy formulation and implementation. The management of risks shall be integrated into FAROF's planning and operational processes and shall be fully recognized in the organization's reporting processes.
- FAROF is committed to exploring opportunities to protect our mission, principles, institutions and the people that we serve.
- FAROF shall focus on risk management strategies that explore and maximize opportunities in addition to minimize threats that the organization may encounter as it

pursues its vision and mission in implementing its strategic, operational, and programmatic plans.

- FAROF will manage risk in an effective and efficient manner as a fundamental component of its operation to achieve its objectives.
- FAROF is committed to identifying and analyzing risks associated with activities and operations with the objective of maintaining a safe workplace, minimizing losses, maximizing opportunities and developing appropriate risk treatment options for informed decision making.
- FAROF will promote a culture of risk and responsibility through our circles of collaboration with national societies and peer-to-peer support.

4. SCOPE

The risk management policy is applicable to all FAROF offices, departments, functions, processes and resources. It includes all areas of risks and the organization will be guided by the risks management standards as well as FAROF's established ethical standards and values and other applicable guidelines.

5. RISK APPETITE

- The responsibility for determining FAROF's risk appetite resides with the CEO and the risk management team is approved by the Board. The risk appetite will be a driver of strategic decisions.
- The CEO and risk management Team defines and reviews the risk appetite which forms the basis for procedures and performance measures ensuring that strategic decisions are risk informed.
- For operations, the risk appetite is defined by FAROF management, and lays out the boundaries for acceptable risks to FAROF.
- The overall risk appetite of FAROF is dynamic, and the latest version is available in the organization's risk appetite statement.
- FAROF's strategic risk appetite statements will be reviewed and endorsed on an annual basis, or at the request of the CEO.

6. ASSESSING RISK

Effective risk management requires risks to be anticipated, identified and assessed regularly, and actions are taken to manage the risks, whether these are positive or negative. To support risk assessment and actions to be identified, FAROF will develop documentation about each project/program specifying the country of operation, partner exposure, any key risks (e.g. foreign exchange). It will also develop training and communications tools to support project managers to manage risk. We face specific operating risks that inform our approach to assessing risks as follows:

- We hold investments and a minimum financial reserve to enable us to manage cash flow and other uncertainties. We will not undertake activities that compromise these.
- We work with and through partners. The quality of our work and our reputation can be affected adversely or positively by the activities of our partners. We will, therefore, select

our partners carefully and we will develop a set of partnership principles and criteria to assist in this.

- We work in countries with different regulatory and accounting requirements for INGOs. We will always ensure that we understand these requirements in order to maintain our license to operate to the benefit of our ultimate beneficiaries.

7. RISK MANAGEMENT FRAMEWORK

Risks regarded as high or very high in impact and probability should be identified in advance and a decision taken on whether to continue the activity and if so how to manage it to either realize its potential or avoid the potential downsides. Risks change and evolve as projects develop, before bidding and through the funded life. Different risks will be managed with a particular focus. Some will be addressed through routine management, supported by FAROF's system, procedures and policies.

8. MONITORING AND LEARNING

We will monitor the risks on the risk register especially those on the "high" risk score. Cluster/units and departments will be asked to review the operational risk captured in their registers termly. We will learn from our experience of risk management and seek to share issues and ideas with staff to enable them work effectively in a risk-based manner. This will include learning from those risks that we take on knowingly, where we believe that we could secure significant benefits if the risks are handled responsibly.

9. RISK MANAGEMENT PROCESS

A risk is defined as the effect an uncertainty has on the objectives of the organization and can be both negative (threats) or positive (opportunity). Risk management is embedded within the FAROF as a key strategic planning, operational planning and operations and it is a systematic process for evaluating and addressing risks to make informed decisions.

The risk management process for FAROF involves the following stages:

- Risk identification
- Risk assessment
- Risk treatment/response
- Risk escalation
- Monitoring and reporting.

9.1. Objective Identification

Before identifying the risks, it is important to establish the context by clarifying what the objectives are, this can be the overall strategy of the organization, the outcomes, and the outputs, the annual operational plan for the office or specific projects and activities.

9.2.Risk Identification

A risk identification is performed to map what, why and how risk can impact the objectives. This includes the reviewing relevant processes, systems and projects of FAROF with a view of identifying critical elements that can prevent the achievement of the objectives. It is important to involve all relevant staff members in this exercise and any staff member can identify the risk and suggest it to be captured in the risk register of their office. It is recommended that managers provide the opportunity to discuss risk at any time. This include in meetings dedicated to risk identification workshop, analyses of lessons learnt from previous operations and findings from evaluations and audits.

9.3. Risk Assessment

When the risks have been identified, each risk must be assessed. This is important to determine if the risk is acceptable to the organization, and to prioritize the order and efforts to manage it. The *inherent risk* level of each risk will be assessed in terms of the **likelihood** that the risk **will affect** the organization's ability to achieve its objectives, and the **impact** to the organization's objective. The assessment is typically **subjective**, using sound judgment, common sense, and experience, in particular for risks that cannot easily be measured. Once the inherent risk level has been determined, it is important to highlight the controls currently in place to mitigate the risk. These are controls and actions that are designed to either reduce the likelihood, the impact or both. The resulting likelihood and impact are the *residual* risk level. The residual risk level can then be assessed towards the organization's risk appetite for this objective or type of risk, to determine if additional actions are required to mitigate the risk to within the risk appetite.

9.4.Risk Treatment/response

If the risk assessment shows that the residual level of risk is outside the risk appetite of the organization, it is necessary to plan for additional controls or mitigation measures. The options of risks treatment are as follows:

- Terminate: terminate the risk by doing things differently and thus removing the risk where it is feasible to do so. Countermeasures are put in place that either stop the threat or problem from occurring or prevent it from having any impact on FAROF.
- Treat: treat the risk by taking action to control the risk by reducing the likelihood of the risk developing or limit the impact of on the objective to acceptable levels.
- Transfer: pass the management of the risk to a third party via for instance an insurance company.
- Tolerate: tolerate the risk either because nothing can be done at a reasonable cost to mitigate it or the likelihood and impact of the risk occurring at an acceptable level.

9.5.Risk escalation

If the residual risk level is outside the risk appetite of the organization, and there are not sufficient controls (or mitigation actions) within the approval level of the office to reduce the risk to within acceptable levels, the risk must be escalated to the next authority level.

10. Risk Monitoring and Internal Reporting

Because the environment in which we operate changes regularly, and as such its risks, it is important to monitor and review risks regularly. The risk register should be a live document that is monitored and reviewed periodically to ensure it remains current. The different offices are required to keep their risk registers up to date, and to make their risk registers available to the risk management function upon request. This will ensure the information gathered can be used to identify potential opportunities to exploit and as a source of institutional memory for future managers of similar operations, offices, or functions. Each office is also required to report on their main risks as part of the regular reporting processes of FAROF.

11. Risk Management for Operations

- Make a risk management plan: each FAROF operation should establish a plan for risk management, which should be in line with risk management framework. The plan should specify how the risk will be managed for the operation including the proposed risk appetite and any external reporting requirements. The risk management plan should be signed off by the operations manager and presented to the risk management team for approval. Make an operational risk appetite: on the onset of the operation, the risk appetite will be communicated to potential partners and donors, to ensure a common understanding of the risks in the operation. Establish a risk register: depending on the size and complexity of the operation, the corresponding risk register could be embedded in the existing risk register.
- External Risk Reporting: reporting of risk to the operation will be outlined in the risk management plan. If the risk management plan is not established, risk will be captured in the internal risk register for the office and not shared externally without consulting with the risk management function.

12. RISK MANAGEMENT TOOLS AND TRAINING

12.1. Risk Register: to capture the risk, all FAROF offices are required to fill the risk register. The register should be accessible to the risk management team.

12.2. Risk Management Training: risk management training is critical in supporting the effective implementation of the risk management framework and is important in enhancing the awareness and risk culture at FAROF. The organization will offer training that include:

- General awareness and training to all staff about key risk management concepts and terminology, promoting risk management as an integral part of all corporate processes.
- Specialist training to support the execution of specific process e.g. risk identification/assessment processes, risk measurement techniques.
- Training to support the implementation of risk management system, tool or technique to promote proactive actions.
- Practical surge support on the start of an operation to support the establishment of risk management for operation.

The risk management office will determine the training needs and to satisfy our competency requirements for risk management. An annual plan for training will be developed based on the assessed risk and incorporated into the work plan. Risk management training will be provided regularly both virtually, in person or a combination of both.

12. ROLES AND RESPONSIBILITIES

ROLE	RESPONNSIBILITIES
The board	• The board will: approve the overall policy statement, offer periodic advice on risk appetite and risk tolerance, monitor the management of significant risk to ensure that appropriate controls are in place. • Approve major decisions taking into account FAROF's risk profile or exposure. • Review regularly FAROF's approach to risk management and approve changes where necessary to key elements of its processes and procedures. • Satisfy itself that less significant risks are being actively managed, and that appropriate controls are in place and working effectively to ensure the implementation of policies approved by the Board;
Finance and Audit committee	• Ensure the implementation of the risk management policy and advise on any modifications to the policy; • Receive advice from the Board on the need for inclusion or amendment of strategic risks in the Strategic Risk List; • Ensure that adequate information is provided for the Board and its committees, as appropriate, on the status of risks and controls; • Ensure that an annual report is provided to the Board on the effectiveness of the system of internal controls; • Ensure that local risk registers in the country offices are reviewed regularly.
The Strategic management Team	• Regularly review the Strategic Risk List and submit this to the F&A committee quarterly and thence bi-annually, to the Board; • Advise on modifications to the policy; • Assess the adequacy of internal controls and advise the Board as necessary; • Decide on risk mitigation where Board or FAC action is not required; • Advise on FAROF's appetite for risk and its tolerance of risk; • Inform all its strategic decisions with considerations of risk; • Ensure other Sub Committees take appropriate steps in respect of risk; • Keep the overall Strategic framework under review; • Advise on thresholds for risk assessment in proposals and projects; • Engage with the Institute's internal and external auditors on internal controls; • Ensure appropriate training is available for staff; • Advise on any supporting policies; • Advise on thresholds for risk-based decisions;

	• Ensure appropriate insurance cover is in place to mitigate risks.
Project managers	• Identify and manage risks in individual projects; • Provide input to the local Risk Register and report on progress; • Support their staff to apply good risk management principles.
Individual staff members	• Take care to apply good risk management practice in their day-to-day work; • Follow the principles and objectives set out in this policy; • Follow other policies that contribute to managing risks such as the Social Media Policy and Travel Policy; • Draw on the guidance from the QUAD process when development project proposals; • Take part in relevant training where this will help with confidence and capacity in risk management.

ANNEX

TERMS AND DEFINITIONS

- ***RISK:*** risk is commonly defined as an effect of uncertainty on the achievement of objectives. In other words, risks are various events that can affect the achievement of objectives. Risk can have both negative and positive outcomes. Our aim is to manage the adverse effects and turn the risk into value.
- ***RISK MANAGEMENT***: Risk management refers to all activities performed by FAROF to anticipate, identify, assess and control the uncertainties which may impact on FAROF's ability to achieve its aims, objectives and opportunities. These will range from organization-wide to specific projects or programs, to the individual.
- ***RISK APPETITE***: Risk appetite is the level of uncertainty an organization is willing to take with the anticipation of a reward at the end, it also refers to the amount of risk that organizations and stakeholders want to accept in order to attain its objectives.

ANNEX 2: RISK REGISTER

Risk Register

Organization	
Date	

Risk #	Date	Description of Risk	Risk Source	Risk Consequences	Consequence Rating	Likelihood Rating	Inherent Risk Rating	Existing Controls	Residual Risk Rating	Planned Treatments	Risk Owner	Treatment Due Date	Risk Review Date

LIKELIHOOD CRITERIA DEFINITIONS

	Impact				
Likelihood	1-very low	2-low	3-moderate	4-high	5-very high
1-rare	Low	Low	Low	Low	Low
2- not likely	Low	Low	Low	Medium	Medium
3-likely	Low	Low	Medium	High	High
4-highly likely	Low	Medium	High	High	High
5- expected	Low	Medium	High	High	High

This policy is signed and approved by:

Chairman Board of Trustees:	***Chief Executive Officer***
Date: 7th Jan 2024	*Date: 7th Jan 2024*
Signature	*Signature:*

Next Scheduled Policy Review June 2025