Key risks – knowing what they are and how they can be managed

Risk management is an essential element of governance. As such, organisations need to be aware of the type of and source of key risks that will affect them.

This resource includes a broad category of risks that are inherent in your organisation's operations. It also provides guidance in terms of the controls that can be put in place to manage risks such as self-assessment questionnaires, policy and procedural development, checklists of requirements, training, etc.

This resource deals with the following categories/sources of risk:

• Governance

• Legal

• Financial

• Contract management and probity

• Human resource

• Member and child protection

• Sports integrity

• Compliance

• Social media

• Insurance.

There is no one risk management solution that will work for every organisation. As this list of risks is not exhaustive, each organisation will need to develop a customised solution that meets its particular needs and circumstances.

This means you will need to ensure that your organisation considers any other relevant category of risk and manages those risks appropriately.

Governance

What is governance?

Governance is the system through which organisations are directed and managed. The purpose of governance is to ensure that an organisation manages its resources to good effect for both members and stakeholders.

This resource aims to provide you with a basic understanding of the minimum governance standards so that you can properly manage the affairs of your organisation and manage associated risks.

For more in-depth information, refer to the:

• Office for Recreation and Sport's Governance publication[8]

In general, governance concerns three key issues:

1. How an organisation formulates its strategic goals and directions.

2. How the board monitors the performance of the organisation to make sure it reaches these strategic goals and establishes 'rules' to ensure that it complies with its legal and regulatory operations.

3. Ensuring that the board acts in the best interests of the organisation as a whole and has the capacity to undertake the above.

In general, governance concerns four key elements:

1. How an organisation develops strategic direction and goals

2. How a board monitors the performance of its organisation to ensure it achieves these strategic goals

3. Effective systems in place to comply with legal and regulatory obligations.

4. How a board ensures that it acts in the best interests of the organisation's members.

In addition to these elements, good governance is also accountable, transparent, responsive and ultimately responsible to the membership. This means that the board of your organisation has an obligation to report, explain and be accountable for the consequences of decisions that are made. In addition, others (including members, staff/volunteers and the ORS, for example) should be able to clearly follow and understand how decisions are made in your organisation.

[8] http://www.ors.sa.gov.au/__data/assets/pdf_file/0010/148537/Sport_Goverance_Principles_for_SA_State_organisations_Booklet_June_2015.pdf

Finally, your organisation (and the board of your organisation) is ultimately responsible to its members. The actions of the organisation and the board should always try to serve the entire membership and balance interests in a timely, appropriate and responsive manner. [9]

Why is governance important?

Governance has become a key focus for sporting organisations in recent years. In particular, the release of the Australia Sports Commission's (ASC) high performance strategy – Australia's Winning Edge – highlighted the importance of good governance to promote success and minimise risk within sporting organisations. Good governance allows for a number of key benefits to your organisation including:

• **Better management** - Good governance tends to encourage better and more efficiently managed clubs or associations.

• **Improved communication** – Clubs or associations that are well run tend to have better informed employees, members and volunteers.

• **Greater confidence** – Members and other stakeholders are more likely to have confidence in a club or association where decisions are made in a transparent and accountable way. This increased confidence may also extend to sponsors and insurers who are likely to have higher regard for a well-run club or association.

• **Growth and sustainability** – Good strategic and business planning and the implementation of sound policies and procedures help to sustain and grow an organisation.

• **Enhanced reputation** - Through satisfied members, the profile and reputation of your club or association can be raised. [10]

• **Risk management** – Good governance provides a framework to ensure that your club or association meets its legal obligations, manages its risks and ensures appropriate accountability throughout the organisation.

The following section provides a summary of governance essentials you need to consider. They are presented under sub-headings for ease of use.

Key point: *the majority of these concepts will apply to your organisation, irrespective of its size.*

Board Composition and Behaviour

The board

Every club or association should have a board whose primary role it is to govern the organisation and oversee its strategic direction. The board's primary responsibility is to direct and hold in trust your organisation on behalf of the members and stakeholders and to ensure that your club or association (the legal entity) remains viable and effective in the present and for the future.

More specifically, the role of the board usually involves a number of key elements such as:

• Determining, reviewing and maintaining the vision, purpose and values of the organisation

• Approval of short- and long-term strategies

• Ensuring that expenditure is guided by setting and approving annual budgets

• Determining how expenditure is approved including setting pre-determined limits for approval outside of the board)

• Appointment, performance evaluation and (if necessary) the termination of the CEO (if applicable) or other senior management

• Risk oversight

• Checking and ensuring the integrity of external reports (financial and non-financial)

• Any other monitoring activities as required

• Supporting effective engagement with the membership and other key stakeholder (e.g. the ORS)

• Enhancing the public profile and reputation of the organisation.

[9] Please note that for ease of reference, the terms 'board', 'board member' or 'director' and 'chair' will be used throughout this section; however, your organisation may use other terms to describe these roles. These may include 'committee', 'commission', 'council', 'committee members' and 'councillors'.

[10] http://www.dsr.nsw.gov.au/sportsclubs/ryc_corporate_what.asp

For more information regarding the role and key responsibilities of the board, visit the Australian Institute of Company Directors – Roles and Responsibilities[11] website.

Board members

Board members should be elected by the members and reflect the diversity of the community. Ideally, this means that your board should bring together individuals from a wide range of backgrounds, different experiences and expertise, may be culturally diverse and, ideally achieving gender balance.

This will provide your board with greater capacity to respond to the diverse needs and concerns of members and stakeholders, encouraging healthy debate and helping to ensure that a range of views are represented at board level.

> *'A board needs to have the right group of people, having particular regard to each individual's background, skills and experience, and how the addition of an individual builds the collective capability and effective functioning of the board.'*
>
> (AICD - Good Governance Principles for NFP Organisations)

Consideration might also be given to appointing independent members to your board, if your constitution allows for this.

For more information regarding board composition and the right mix of skills, knowledge and experience for your board, visit the Australian Institute of Company Directors – Board Composition[12] website.

It is important for new Board and Committee members to know about the workings of the organisation and their responsibilities as a Board or Committee member. It is good practice to provide a structured, comprehensive and practical orientation to the activities, policies and structure of the organisation.

The Office for Recreation and Sport has developed comprehensive *Induction Essentials Packs* to assist organisations to induct new board or committee members.

Size of the board

Your constitution should specify a maximum or actual board size. However, if there is no prescribed size, it may be sensible for smaller organisations to start with a small board (e.g. four to five board members), which can grow as necessary. As a rule of thumb, a board should be small enough to have high quality and active discussions, but large enough to provide the skills and experience necessary for it to operate efficiently. Formation and use of Committees can activate operational aspects of the organisation.

Continual assessment and board renewal may assist your board in determining where any gaps in relation to skills and experience may exist. If and when these become apparent, it may be appropriate to make changes to the board.

Chair

The chair should be elected by the board. The chair is the chair of the board, not the chair of the organisation. In some clubs or associations, the president may also be the chair; however, it is the responsibility of your board as a whole to provide leadership to your club or association.

The chair should facilitate discussion among and provide leadership to the board. In addition, the chair may also serve as an interface between the board and the CEO (if applicable) or other management.

Board meetings

The board should hold regular meetings to monitor the performance of your club or association, formulate policy and discuss any matters brought to the board's attention. These meetings should be well-attended by appropriate personnel (i.e. the board members and CEO, if applicable). Board meetings should primarily focus on the 'big picture' issues affecting the organisation such as strategic direction, policy making and review, progress towards goals and KPIs and the financial health of the organisation.

Ideally, the board should not concern itself with issues related to the day-to-day running of the club or association. These issues should be the concern of management or, where this is not possible, should be delegated to an appropriate sub-committee (see below).

The board should meet as often as is required to carry out its governance duties. Typically, this may be every month or every second month. Board meetings should take as long as is required to carry out the board's governance responsibilities; however, most efficient and effective meetings run no longer than two hours.

For more information about running effective board meetings, refer to the Australian Institute of Company Directors – Board Effectiveness[13] website.

13 http://www.companydirectors.com.au/Director-Resource-Centre/Not-for-profit/Good-Governance-Principles-and-Guidance-for-NFP-Organisations/Principle-6-Board-Effectiveness

Board papers

Board papers should be distributed at least one week prior to the scheduled board meeting so that directors have sufficient time to read them and consider any issues raised.

A typical set of board papers will consist of:

- A cover page with the date, place and time of the meeting
- An agenda
- The minutes of the previous meeting
- Major correspondence issued and received by the organisation
- The CEO's report, if applicable (for sporting and recreation organisations, reports might be submitted by the chair of a committee for example)
- Financial reports
- Operational updates
- Documents supporting submissions that need decisions
- An action list.

In terms of best practice, it is also suggested that the agenda item is clearly referenced on each paper and that agenda items and papers should be marked as 'For decision' or 'For information'.

Committees

A board may appoint committees to help manage its workload. Committees may focus on specific areas to allow the board to concentrate on broader and strategic 'big picture' issues and directions. The work of these committees should be strongly linked to the strategic direction of your organisation. Examples of committees a board may form include:

- Finance and audit
- Marketing
- Sponsorship or fundraising
- Special projects.

The board should approve the establishment of a committee, its terms of reference (outlining roles and responsibilities) and any delegation of authority provided to the committee.

The operations of a committee are dependent on the size and structure of the organisation. In most circumstances if an organisation has a management structure which consists of employees operational committees can report directly to management. If an organisation is run solely by volunteers the chair of the operational committee can report to the board. The minutes of all sub-committee meetings should also be circulated to members of the board.

Key Principles 2.3 in the Office for Recreation and Sport Governance Principles for SA State Sport Organisations advocates that the board should establish an audit committee (often referred to as the finance and audit committee) and that its role be set out by formal charter/terms of reference:

- The existence of an audit committee is recognised as an important feature of good corporate governance.

- The committee should be structured with at least three people who are financially literate, and include at least one who has financial expertise (that is, a qualified accountant). The audit committee will comprise persons who are not directly involved in the management of the organisation; however, the chief executive officer and chief financial officer or equivalent to have standing invitations to attend meetings to provide clarification where necessary.

- The chair of the audit committee should be independent from the chair of the board;

- The audit committee should take prime responsibility for, but not be limited to:

  - Reviewing the organisation's annual financial accounts and recommending them to the board for approval

  - Overseeing the relationship, appointment and work of external and internal auditors

  - Reviewing compliance-related matters

  - Overseeing the organisation's risk management framework

  - Regularly reviewing the organisation's ongoing financial accounts, systems and delegations.

Conflicts of interest

All board members should be independent, that is:

- They should not be employed by or have a significant business relationship with the organisation (e.g. a major supplier to the organisation)

- They should not hold any other material office within the organisation or hold a material conflict of interest as a result of being appointed to the board.

- It is recommended that they not be appointed to represent any constituent body (e.g. a particular team or affiliated club)

Board members and others holding official positions within your organisation must avoid actual or perceived conflicts of interest. This means that the organisation should be put ahead of any individual interests.

Any actual or perceived interests that may present a conflict should be declared and recorded in the minutes and, where it exists, a conflicts of interest register. If a conflict arises, the member should not vote on the matter and ideally should leave the meeting while the matter is being discussed. These actions aim to protect both the member and your organisation.

Key Documents

Constitution

A constitution is a written document that governs the objects of your organisation, its membership and how decisions will be made. Having a constitution is important because it ensures that members and stakeholders are clear about how things are done within the organisation. It can also be used as a point of reference to help resolve any problems or controversies that may arise.

A constitution should include the following sections:

- Interpretation — objects and powers
- Members — membership and meetings of members (general meetings)
- Defining who is eligible to vote at meetings
- The board — powers, other roles (chief executive officer and secretary)
- Meetings of the board
- Accounts
- Auditors
- Winding up.

Constitutions should be written in an unambiguous and succinct manner and should not include items that would better fit within a club's or association's by-laws or policies.

The Office for Recreation and Sport provides templates and more information regarding drafting your constitution.[14]

Position descriptions

Board member position descriptions support the board and individuals to minimise risks, conflicts and uncertainty around roles and responsibilities. Position descriptions help to ensure that key positions within the governance structure of the club or association are documented and well understood. Your organisation should have position descriptions for the following roles:

- Chair
- Board members
- Public officer[15]
- Chairs of sub-committees
- Chief executive officer (if applicable).

These position descriptions should clarify expected roles and responsibilities, required skills as well as how many hours per week the member would be expected to dedicate to the role. For more information about drafting position descriptions, refer to the Institute of Community Directors Australia website

https://www.communitydirectors.com.au/icda/policybank/

Board charter and Committee terms of reference

Ideally, your organisation should have a documented charter or term of reference for the board and each a terms of reference for each of the board's committees. These documents should set out the principles governing the board and each committee and their functions and responsibilities.

An example of a board charter can be found at the Institute of Community Directors Australia website

https://www.communitydirectors.com.au/icda/policybank/

For an example of a terms of reference for a finance sub-committee visit the DIY Committee Guide – Terms of Reference[16] website.

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[14] http://www.ors.sa.gov.au/sport_and_recreation/managing_your_club_or_association/resources_to_help_you_run_your_club

[15] More information about this role can be found on the Consumer and Business Services website, www.cbs.sa.gov.au

[16] http://www.diycommitteeguide.org/resource/terms-reference-finance-sub-committee

Maintaining meeting records

Your organisation is required to keep a record of all board meetings that are held. Meeting minutes should outline who attended the meeting, topics for discussion and decisions made. Maintaining accurate meeting minutes assists the board to ensure that they are upholding their duty to operate in a transparent fashion as well as meeting legal requirements. They also record how decisions within your organisation have been made.

It is the content, rather than the form, of the meeting minutes that is most important. However, a number of conventions for recording meeting minutes do exist.

Board meeting minutes are required to be kept securely. These meeting minutes are the domain of the board, they do not need to be released to the members. The board may decide to release an overview of decisions or discussions to notify members of actions of the board.

For more information regarding the format of meeting minutes, refer to the Governance Institute of Australia website.[17]

Tools to Assist with Monitoring and Oversight

Note: *Some of these tools are also discussed in other sections of the resource.*

The degree of complexity and level of detail you assign to these tools will be in part driven by the size and complexity of your organisation

Strategic planning framework

Setting the strategic direction of the organisation is the responsibility of the board, they may delegate some activities to the management, but the ultimate authority sits with the board. It is recommended that the process used to develop the strategic plan involves consultation with and input from stakeholders, members and affiliates and other interested parties. This is important to ensure strategies address the most pressing issues within a sport. Involving members and stakeholders in the process encourages ownership and investment in the achievement of the desired outcomes.

The board must be meaningfully involved in the strategic planning process and ensure that appropriate performance indicators are included in the plan for performance to be measured against.

Your board should regularly review the strategic priorities to ensure that your organisation maintains focus on these key priorities. You should also consult with members and other stakeholders throughout the strategic-planning process. This helps to ensure that future strategies address the most pressing issues for your club or association.

Reporting the progress towards and achievement of key milestones within the strategic plan to the members and other stakeholders can be a great way to demonstrate successes of the organisation.

For more information to assist you in developing your organisation's strategic plan, refer to the Recreation and Sport Strategic Planning Guide.[18]

[17] http://www.governanceinstitute.com.au/media/428696/gov-inst_bestpracticeminutes_2014.pdf

[18] https://www.recsport.sa.gov.au/pdf/Strategic-Planning-Guide.pdf

Policies

The board is responsible for endorsing high-level policy documents that establish your organisation's framework for quality, safety, risk and operations. These should include occupational health and safety policies, which are now mandated by legislation. However, they can also include appropriate provisions for quality of service, financial processes and other legal risks. Within your organisation, there should be two levels of policy making: board-level policy and operational policy.

Board-level policy should include:

- Strategic policies defining the outcomes sought from all operational efforts
- Governing process policies defining the board's own operating practices
- Board/chief executive (or management) relationship policies defining the nature of the board's relationship with the CEO or other management (as applicable).

Example policy documents include:

- A board charter (explaining roles and responsibilities)
- Conflict of interest policy
- Code of ethics and proper practice policy
- Board professional development policy
- Induction of new board members policy.
- Operational limitations policies that define the limits of the CEO or other management's freedom to act. For example, a policy relating to delegated authority of officers of the organisation

Resources to assist you to develop some of these policies can be found on the Institute of Community Directors Australia – Policy Bank[19] website.

Operational policies in the sport environment include those pertaining to Member Protection, Child Protection and Hot Weather. As sport operates in a federated system, it is recommended to ensure that policies are aligned to those of any body you are affiliated with.

For sport policies, visit the Office for Recreation and Sport website.

Risk register and risk management framework

Organisations should develop a risk management plan or establish a risk register that is appropriately and regularly reviewed which identifies risks, the likelihood of a risk, the controls to minimise the risks and who is responsible for oversight.

This should be in the context of a framework that sets out the processes by which risks will be managed, by whom and when reporting should be made to the board. Ideally these documents will categorise risks as either strategic or operational.

Refer to the section titled Risk Management Process for additional information.

Financial reporting

The directors of your organisation (i.e. members of the board) are ultimately responsible for the financial health of the organisation. As such, board members have a responsibility to ensure that they are informed of and understand the organisation's finances. To achieve this, the board should receive timely and accurate financial statements that comprise:

- Profit and loss statements
- Balance sheets
- Cash-flow statements
- Budget versus actual reports on a monthly and year-to-date basis as well as identifying the full year budget
- Written reports regarding material variances from the budget
- Listings of all major outstanding debtors and creditors
- Bank reconciliations (including bank account evidence).

The board should also receive performance reporting against your organisation's strategic objectives so that you can monitor this performance on an ongoing basis. It is critical that all directors understand and take their financial responsibility on the board seriously by ensuring they are able to comprehend and challenge the financial information presented to them by management.

[19] http://www.communitydirectors.com.au/icda/policybank/

A board should possess detailed knowledge of the financial health of its organisation, as it is illegal for an organisation to trade while insolvent[20] and the directors could be held personally responsible. Not being aware of financial issues within your organisation is not an excuse. If, as a board member, you don't receive adequate information or don't understand the information you are given, make sure that you ask for clarification. Ultimately, it is your responsibility to ensure you are informed.

For more information regarding board members' legal liabilities, refer to the Institute of Community Directors Australia website.

https://www.communitydirectors.com.au/icda/tools/?articleId=1362

Performance management

As mentioned previously, one of the key aspects of good governance is adequate monitoring of performance. This should include financial and non-financial monitoring, the purpose of which is to ensure that your club or association is performing to the standards required.

It is essential that any performance indicators that may be established are clear and concise and can actually be measured. These indicators should also be aligned to your club's or association's strategic objectives (remember, 'what gets measured gets done') and comprise both lead and lag indicators[21]. The board may receive monitoring information from a number of different sources, including:

- Internal reports, e.g. CEO reports (if applicable), sub-committee reports

- External reports, e.g. an external auditor or contractor

- The board's own observations, investigations or evaluation.

In addition to measuring the performance of your club or association, it is the job of the board to undertake performance reviews of the CEO or other key senior management (as applicable) to evaluate their effectiveness. Criteria that you might use to evaluate the CEO or other management may include their achievements against KPIs[22], compliance with board directives and the proper use of delegated authority.

It is recommended that the board review its own performance on a yearly basis, at least. The purpose of this is to encourage self-review and continuous improvement. The outcome of the evaluation process is the basis for board and individual board member development goals leading to an improvement in board performance in time.

Practicing good governance and displaying the appropriate level of diligence in the way that your club or association manages its activities and affairs contributes to sound risk management.

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[21] A lagging indicator is one that is 'output' oriented and measures an event that has already happened, e.g. membership numbers. A leading indicator on the other hand is predictive and may drive the performance of the lagging indicator, e.g. membership satisfaction.

[22] KPIs or Key Performance Indicators are quantifiable measures (i.e. objectively measurable) developed and agreed upon by the board and management that reflect the critical success factors of an organisation

Governance – Summary of Key Requirements

The information within this resource provides you with an understanding of the key issues that you need to be aware of in order to ensure that your organisation effectively manages its resources for the benefit of members and stakeholders.

Listed below is a high-level summary of key requirements for small and large organisations:

- The majority of board members are elected by the members of the organisation (also refer to requirements as specified by your constitution).
- The organisation has an unambiguous constitution.
- The position of chair of the board is elected by the board or by the process specified by the constitution.
- The organisation holds regular board meetings.
- The board papers are distributed at least one week before the scheduled meeting date.
- The board is supported by a range of sub-committees (optional for smaller organisations)
- The governance structure maximises the ability of the board members to make independent decisions
- Board member position descriptions exist.
- Board meeting minutes are recorded and securely stored
- The organisation has documented strategic priorities, goals and performance measures.
- The board endorses all high-level policies of the organisation.
- The board has a risk register in place and regularly reviews and monitors those risks.
- The board has a detailed understanding of the organisation's financial health.
- The board undertakes performance reviews of the CEO or other key paid management positions.
- The board reviews its own performance on an annual basis.

Governance - Useful Websites and Other Resources

For more information regarding governance, please refer to the following resources:

Governance

- Office for Recreation and Sport
- Australian Sports Commission (ASC)
- Australian Institute of Company Directors (AICD)
- 'Good Governance Principles and Guidance for NFP Organisations'
- Department of Premier and Cabinet – Boards and Committees
- Governance Institute of Australia - Board Review
- Australian Institute of Company Directors - Financial and non-financial performance indicators

Templates

- Performance review templates

Policies

- Institute of Community Directors

Training and development

- Australian Institute of Company Directors (AICD)
- Volunteering SA and NT