



# Merciful Group INC

## Financial Risk

## Management Policy

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# **Merciful Group INC**

## **Financial Risk Management Policy**

### **Overview**

The not-for-profit sector is vulnerable to specific financial risks. As an international aid charity, Merciful Group INC1601179 ("MG") is exposed to financial risk due to the nature of its activities and the environments in which it operates.

MG works hard to identify and prevent the extent of these risks. This ensures its charitable purposes are fulfilled. MG acknowledges that the most significant financial risk arises due to third parties and external elements.

### **Policy**

To ensure MG's charitable funds are safe from misuse and are being used to further its charitable purposes, MG has established the MG Financial Risk Management Policy.

The purpose of this policy is to outline the financial risks identified for MG and how MG should manage identified risks.

### **Responsibilities**

It is the responsibility of the Committee to assess any financial risks and to take appropriate measures to minimise those risks.

It is the responsibility of the President to conduct an annual financial risk assessment of MG, as part of the MG Risk Management report. The President is required to conduct a further financial risk assessment before each major aid appeal.

It is also the responsibility of the President to ensure that employees and volunteers are aware of all applicable financial risks and are familiar with this policy.

It is the responsibility of all employees and volunteers to ensure that:

- a. they are familiar with this policy;
- b. they observe the procedures in this policy; and
- c. they inform their supervisor if they become aware of any risk not covered by this policy.

### **Financial procedures and charitable purpose**

MG acknowledge that it is its responsibility to ensure the charity's funds are used exclusively for its charitable purpose.

### **Annual budget**

MG must use all reasonable endeavours to ensure that, before the end of each financial year the Committee adopts an annual budget for the following financial year.

### **Business plan**

MG must use all reasonable endeavours to ensure that, before the end of each financial year, the Committee adopt a business plan for MG, which must include, but is not limited to, information relating to the following:

- a. Cash reserve management policy;
- b. Reserve policy;
- c. Investment strategy;
- d. Financing requirements for working capital, investment and expansion;

- e. Profit objectives; and
- f. CKKs ability to review the capacity and capability of partners to manage, deliver and track funds and resources.

## Risk Assessment Register

The Committee shall nominate an officer (the Risk Management Officer) to maintain a risk register during day-to-day operations.

The Risk Management Officer will also conduct a review of the effectiveness of the organisation's record on risk management for the previous financial year and consider the internal and external risk profile for the coming financial year. The Risk Management Officer will produce a report each financial year and provide it to the Committee for its review.

Particularly, the report must include an assessment on MG's activities to minimise any risk of charity funds used toward individuals and organisations associated with terrorism, or which contravene Australian sanction laws.

As part of its Business Plan, the Committee will assess the Risk Assessment Register and the Risk Management Officer's report, and review actions taken to manage risks appropriately.

## Day-to-day operations

The Risk Management Officer will oversee funding provided by MG, including petty cash and other outflows, on a day-by-day basis.

The Risk Management Officer will ensure MG maintains a reasonable internal control procedure, including transactions and delegations of decision-making.

The Committee shall review all MG funding on an annual basis and include its assessment in the Annual Budget.

The Committee will agree on the maximum amount of funds MG can spend without Committee approval. Once the threshold is agreed, the Committee must expressly approve any funding above the amount.

Prior to handling monetary donations with any foreign third party, the Committee must directly conduct an assessment of the third party using all information available to it from:

1. The Department of Foreign Affairs and Trade;
2. AUSTRAC's register of remittance organisations;
3. The Australian Council for International Development's list of member agencies (relevant government agencies); and
4. The private industry.

To ensure third parties do not support terrorism and that the funds are going to further MG'S charitable purpose. In particular, all Committee members, employees and volunteers must be aware of the list of Terrorist organisations made available by the relevant government organisations.

To guide the Committee's use of charity funds with foreign third parties, the Committee must read and understand the Australian Council for International Development's Code of Conduct.

Any one member of the Committee, who may also be the Risk Management Officer, will directly oversee:

- all monetary donations received by MG;
- that any transfers to third parties are adequately assessed in accordance with information available to MG from relevant government agencies;
- any monetary spending for MG major appeals; and
- all transfers, receipts, invoices and other documentation are archived with sufficient reasoning for the Committee's annual review.

## Accountability to members

MG understands that it must take reasonable steps to be accountable to their members. The Financial Risk Register will be presented at the AGM for the inspection and comment of members to ensure people with an interest in the organisation are informed of the risks that the organisation is presently exposed to.

## Identified financial risk

Potential risk	Potential impact	MG steps to mitigate risk
<b>Budgetary control and financial reporting</b>	<ul style="list-style-type: none"> <li>Budget does not match key objectives and priorities</li> <li>Decisions made on inaccurate financial projections or reporting</li> <li>Decisions made based on unreliable costing date or income projections</li> <li>Inability to meet commitments or key objectives</li> <li>Poor credit control</li> <li>Poor cash flow and treasury management</li> <li>Ability to function as a going concern</li> </ul>	<ul style="list-style-type: none"> <li>Link budgets to business planning and objectives</li> <li>Monitor and report in a timely and accurate way</li> <li>Use proper costing procedures for product or service delivery</li> <li>Ensure adequate skills base to produce and interpret budgetary and financial reports</li> <li>Agree procedures to review and action budget/cash flow variances and monitor and control costs</li> <li>Regularly review reserves and investments</li> </ul>
<b>Reserves policies</b>	<ul style="list-style-type: none"> <li>Lack of liquidity to respond to new needs or requirements</li> <li>Inability to meet commitments or planned objectives</li> <li>Reputational risks if policy cannot be justified</li> </ul>	<ul style="list-style-type: none"> <li>Link reserves policy to business plans, activities and identified financial and operating risk</li> <li>Regularly review reserves policy and reserve levels</li> </ul>
<b>Cash flow sensitivities</b>	<ul style="list-style-type: none"> <li>Inability to meet commitments</li> <li>Lack of liquidity to cover variance in costs</li> <li>Impact on operational activities</li> </ul>	<ul style="list-style-type: none"> <li>Ensure adequate cash flow projections (prudence of assumptions)</li> <li>Identify major sensitivities</li> <li>Ensure adequate information flow from operational managers</li> <li>Monitor arrangements and reporting</li> </ul>
<b>Dependency on income sources</b>	<ul style="list-style-type: none"> <li>Cash flow and budget impact of loss of income source</li> </ul>	<ul style="list-style-type: none"> <li>Identify major dependencies</li> <li>Implement adequate reserves policy</li> <li>Monitor arrangements and reporting</li> </ul>
<b>Guarantees to third parties</b>	<ul style="list-style-type: none"> <li>Call made under guarantee</li> <li>Lack of reserves or liquidity to meet call</li> <li>Consistency with objects and priorities</li> </ul>	<ul style="list-style-type: none"> <li>Review approval and authority procedures</li> <li>Agree procedures to ensure consistency with objects, plans and priorities</li> <li>Ensure financial reporting of contingency and amendment to reserves policy</li> </ul>

<b>Foreign currency</b>	<ul style="list-style-type: none"> <li>• Currency exchange losses</li> <li>• Uncertainty over project costs</li> <li>• Cash flow impact on operational activities</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure proper cash flow management and reserves policy</li> <li>• Use currency matching (cost to charity in home currency)</li> <li>• Consider forward contracts for operational needs (hedging)</li> </ul>
<b>Inappropriate or loss making non charitable trading activities</b>	<ul style="list-style-type: none"> <li>• Resources withdrawn from key objectives</li> <li>• Resources and energy diverted from profitable fund-raising or core activities</li> <li>• Regulatory action, and accountability</li> <li>• Reputational risk if publicised</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor and review business performance and return</li> <li>• Ensure adequacy of budgeting and financial reporting within the subsidiary or activity budget</li> <li>• Review and agree adequate authorisation procedures for any funding provided by charity (prudence, proper advice, investment criteria)</li> <li>• Report funding and performance as part of charity's own financial reporting system</li> <li>• Appraise viability</li> <li>• Consider transfer of undertakings to separate subsidiary</li> </ul>
<b>Investment policies</b>	<ul style="list-style-type: none"> <li>• Financial loss through inappropriate or speculative investment</li> <li>• Unforeseen severe adverse investment conditions</li> <li>• Financial loss through lack of investment advice, lack of diversity</li> <li>• Cash flow difficulties arising from lack of liquidity</li> </ul>	<ul style="list-style-type: none"> <li>• Review and agree investment policy</li> <li>• Obtain proper investment advice or management</li> <li>• Consider diversity, prudence and liquidity criteria</li> <li>• Implement adequate reserves policy</li> <li>• Use regular performance monitoring</li> </ul>
<b>Protection of permanent endowment</b>	<ul style="list-style-type: none"> <li>• Loss of future income stream or capital values</li> <li>• Buildings unfit for purpose</li> <li>• Income streams inappropriate to meet beneficiary needs</li> </ul>	<ul style="list-style-type: none"> <li>• Review and agree investment policy</li> <li>• Obtain proper investment advice or management</li> <li>• Consider diversity, prudence and liquidity criteria</li> <li>• Use regular performance monitoring</li> <li>• Ensure maintenance and surveyor inspection of buildings</li> <li>• Review insurance needs</li> </ul>
<b>Fraud or error</b>	<ul style="list-style-type: none"> <li>• Financial loss</li> <li>• Reputational risk</li> <li>• Loss of staff morale</li> <li>• Regulatory action</li> <li>• Impact on funding</li> </ul>	<ul style="list-style-type: none"> <li>• Review financial control procedures</li> <li>• Segregate duties</li> <li>• Set authorisation limits</li> <li>• Agree whistle-blowing anti-fraud policy</li> <li>• Review security of assets</li> <li>• Identify insurable risks</li> </ul>

<b>Terrorism</b>	<ul style="list-style-type: none"> <li>• Loss of life</li> <li>• Financial loss</li> <li>• Reputational risk</li> <li>• Not furthering charitable purpose</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain internal control procedures to record transactions</li> <li>• Advise members are aware of the risk and the steps taken to minimise it</li> <li>• Consider Australian sanctions laws</li> <li>• Constantly review lists from relevant government agencies to ensure MG's funds are not used to support individuals or organisations which support terrorism</li> <li>• Ensure responsible persons, board members, employees, fundraisers, volunteers and partners are not affiliated to individuals or organization which support terrorism</li> <li>• Consider AUSTRAC advice if remittance service provider is used</li> <li>• Consider third party control and audit trails to ensure MG's funds are used to further its charitable purpose</li> </ul>
<b>Counter party risks</b>	<ul style="list-style-type: none"> <li>• Financial loss</li> <li>• Disruption to activities or operations</li> </ul>	<ul style="list-style-type: none"> <li>• Research counter party's financial sustainability</li> <li>• Contractual agreement</li> <li>• Consider staged payments</li> <li>• Agree performance measures</li> <li>• Monitor and review investments</li> <li>• Establish monitoring and review arrangements where counter party is the charity's agent ('conduit funding' arrangements)</li> </ul>