

FOOD STANDARDS SCOTLAND – STRATEGIC RISK REGISTER DEVELOPMENT

1 Purpose of the paper

- 1.1 The purpose of this paper is to present the Board with draft Strategic Risks (listed at Annex A) for their consideration, comment and agreement.
- 1.2 Once agreed, the Executive will develop and finalise the Strategic Risk Register, which will contain details on how we plans to address each risk and the control mechanisms that will be implemented and monitored to mitigate the risks.
- 1.3 The Strategic Risk Register will then be subject to regular discussion and review at the Audit and Risk Committee as part of the governance and assurance arrangements that are already well established in relation to the management of risk in the organisation. The Board will continue to be sighted on strategic risk management through the assurance role of the ARC and bi-annual discussion at its open meetings.
- 1.4 The Board is asked to:
 - **Note** the information provided in this report.
 - **Discuss, comment on, and agree** the draft strategic risks for FSS.
 - Once the strategic risks are agreed, **note** that the Executive will develop the mitigations and controls appropriate for each risk;
 - **Agree** the recommendation that the existing process for reviewing, reporting and escalation of risk should continue through the Audit and Risk Committee and Board.

2 Background

- 2.1 Corporate Risk and the associated Corporate Risk Register (CRR) has been subject of discussion at Board Seminars and Audit and Risk Committee (ARC) meetings during 2015/16. At the December ARC is was agreed that the existing CRR, that was developed following the creation of FSS, articulated the risks that were faced by the organisation at that time and were primarily focussed on setting up a new organisation and as such required to be reviewed as part of the FSS strategy development by the whole Board. As well as a review of the risks faced by FSS, it was also agreed that the risk appetite of the Board required review with regards to the successful delivery of the strategy.
- 2.2 At its February seminar, the Board discussed corporate risks and risk appetite in relation to the strategy. This was facilitated by some initial risk identification work that the Executive had undertaken using the PESTLE analysis model as this approach helped define what failure to deliver the strategy would look like. In addition to the PESTLE analysis a draft risk appetite statement was developed and subsequently agreed by the Board, who felt this better reflected

their risk appetite with regards to the delivery of the strategy. The agreed risk appetite statement is outlined below:

With regards to public health the Board has generally a low appetite for risk. This is because consumer protection and public health are at the core of what we do. Ensuring food is safe is our primary, non-negotiable, function and forms the basis of the trust consumers have in FSS. On public finance the Board has a low tolerance and would expect the Accountable Officer to apply the principles of sound financial management, managing within budget.

Clearly any organisation needs to think about its reputation and how an organisation is perceived is important. Perceptions will vary between different stakeholders but the trust of consumers is paramount. In this regard the Board's appetite for risk is medium tolerance. Obviously, it is important that we work collaboratively and effectively but it is possible given the breadth of our remit that there are opportunities for disagreement. As our organisation is non-Ministerial, it is important that we retain and use that independence from Government wisely, taking account of, but not being wholly influenced by the views of others.

Given the current landscape and the challenges the organisation faces, the Board has a high tolerance for innovation and taking well managed and thought-through risks in areas such as piloting of new ideas, delivery models etc.

- 2.3 Following the February discussion on risk appetite and corporate risks in relation to the strategy, the Board tasked the Executive to, using the PESTLE analysis as a baseline, develop and articulate the risks following the FSS risk management methodology.

3 Discussion

Background

- 3.1 Our primary concern is consumer protection through making sure food is safe to eat, ensuring consumers know what they are eating and improving nutrition. With that in mind, our vision is to create a food and drink environment in Scotland that benefits, protects and is trusted by consumers. By undertaking effective risk management we will manage better the successful delivery of our strategic objectives by:

- Reducing the possibility our objectives are jeopardised by unseen events by constraining threats to an acceptable level;
- Increasing confidence in achieving our desired outcomes;
- Recognising and taking informed decisions to manage and exploit opportunities that may offer an improved way of achieving objectives; and
- Providing reasonable assurance to the FSS Board that risks are managed as part of our internal controls.

3.2 FSS have adopted the principles of the Scottish Government risk framework. The methodology is straightforward and aims to assist the organisation manage risk effectively, following 5 distinct phases:

- **Clarifying objectives** – established through the agreement of the Strategy and Corporate Plan
- **Identifying risks** – in order to manage risks, we need to know what risks are faced and undertake an evaluation to articulate the risks specific to FSS
- **Assessing risks** – this enables the effective prioritisation of risks in relation to our objectives and ensures attention is focussed on the key risks and resources are concentrated where they are most required.
- **Addressing risks** – this is the stage where actions are agreed in order to control or mitigate risks that have been identified.
- **Reviewing and reporting risks** – this ensures that new opportunities and threats or changes to existing risks are managed. Reporting changes helps to raise awareness and coordinate responses to key risks.

Strategic Risks

- 3.3 As outlined above, as the strategic objectives of FSS are now clarified through the agreement of the Strategy and Corporate Plan, we have been able to undertake the initial risk identification phase using the PESTLE analysis method and by articulating the risks so that they encompass both the possible cause and the impact to our objectives which might arise as a result of a risk materialising. The draft Strategic Risks are presented for Board discussion, comment and agreement at Annex A.
- 3.4 The Executive have also completed an initial assessment of each risk using a 5x5 risk matrix which allows risks to be assessed on the combination of the consequences of an event (impact) and the probability of it occurring (likelihood). The risk matrix and tables at Annex B provides a guide to risk levels and how they should be recorded in the risk register template adopted by FSS.

Reviewing and Reporting Risks

- 3.5 The next steps in the FSS risk management process consider addressing, reviewing and reporting risks. Following Board discussion and agreement of the draft strategic risks, the Executive will develop the risk management activities to address each risk. The main purpose of addressing risks is to turn uncertainty to our benefit by constraining threats and taking advantage of opportunities. The Executive will consider whether risks can be tolerated, treated, transferred, terminated or whether we can take the opportunity. When the option of treating risks is considered, the control mechanisms designed to mitigate each risk will also be considered and captured within the risk register template, which will then be subject to regular review by the Executive, ARC and Board.
- 3.6 Once the development of the Strategic Risk Register is complete, it is proposed that the risk register will be managed and maintained by the being owned jointly

with the Board. There are already established reporting and escalation processes within FSS (through the three levels of risk registers – Strategic, Executive and Directorate) which ensure risks are regularly reviewed to monitor whether the risk profile is changing and to gain assurance that risk management is effective, and to identify when further action is necessary. Risk escalation shall take place when a risk reaches a level whereby the risk owner can implement no further controls or solutions within their delegated authority. De-escalation of risk can also occur when the Board or Executive feel the risk can be managed at a lower level.

- 3.7 It is recommended that the Board agree to continue with the current arrangements for reporting, reviewing and escalating risks within FSS. This will result in the Executive reviewing the Strategic Risk Register on a monthly basis and reporting to the ARC on a quarterly basis. The report to the ARC shall also include any **VERY HIGH** or **HIGH** risks that are identified on the Executive risk register. It is proposed that reporting the Strategic Risk Register to the Board takes place bi-annually in open session with specific timings to be agreed with the Board and Board Secretariat.

4 Conclusion/Recommendations

- 4.1 Following the agreement of the Strategy and Corporate Plan, it is now possible to consider and identify risks that may jeopardise the delivery of our strategic objectives. With this initial assessment complete, Board agreement is now sought to allow the Executive to proceed in further developing the Strategic Risk Register and to implement the relevant review and reporting mechanisms to ensure risk management and assurance is undertaken within FSS and is effective.
- 4.2 It is proposed that following Board agreement, the Executive develop the first draft of the Strategic Risk Register during August which will allow review to take place at the ARC meeting scheduled for September 1st 2016.
- 4.3 The Board is asked to:
- **Note** the information provided in this report.
 - **Discuss, comment on, and agree** the draft strategic risks for FSS.
 - Once the strategic risks are agreed, **note** that the Executive will develop the mitigations and controls appropriate for each risk;
 - **Agree** the recommendation that the existing process for reviewing, reporting and escalation of risk should continue through the Audit and Risk Committee and Board.

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ANNEX A

DRAFT FSS Strategic Risks

1. There is a risk that FSS lose the confidence and/or trust of consumers due to adverse reactions from stakeholders or negative press and/or media commentary which leads to public doubt about the impartiality or authority of FSS's advice' resulting in reputational damage that impacts our ability to deliver the FSS strategic objectives.

Initial Risk Assessment - Likelihood 1 – Impact 4. Risk Rating – 4 (MEDIUM)

2. There is a risk of the diet and nutrition landscape remaining confused due to other parts of the administration not considering or agreeing that they have responsibility for delivery, or lack of clarity with regards to the roles and responsibilities of relevant parts of the wider Scottish Administration, resulting in an inability to deliver Strategic Outcome 3.

Initial Risk Assessment - Likelihood 3 – Impact 4. Risk Rating – 12 (HIGH)

3. There is a risk that delivery of outcomes specifically appropriate for Scotland, which require action by industry, may be constrained by either a preferences for a UK-wide solution across significant sectors of the food industry, or a preference for the UK Government agenda resulting in compromised or delayed outcomes.

Initial Risk Assessment - Likelihood 3 – Impact 4. Risk Rating – 12 (HIGH)

4. There is a risk that FSS budget is reduced in future, due to wider financial pressures across the Scottish Administration, that results in FSS having to focus solely on statutory requirements and scale back on a number of key initiatives needed to achieve our strategic outcomes, and requires the Board to revise or reprioritise the FSS Strategy which may have a detrimental impact on consumers.

Initial Risk Assessment - Likelihood 4 – Impact 4. Risk Rating – 16 (HIGH)

5. There is a risk that FSS fails to protect the reputation of Scottish food and drink sector due to the lack of information, capability or capacity that enables action to be taken on food fraud which results in failure to adequately deliver our aspirations of responsible food businesses flourishing and that consumers having confidence that food is authentic.

Initial Risk Assessment - Likelihood 2 – Impact 3. Risk Rating – 6 (MEDIUM)

6. There is a risk that FSS's constitution, role and position within the wider Scottish Administration becomes ambiguous due to conflicting or contradictory policy priorities elsewhere which results in FSS outcomes being undermined.

Initial Risk Assessment - Likelihood 2 – Impact 4. Risk Rating – 8 (MEDIUM)

7. There is a risk that FSS is not agile and capable enough with communication to translate/summarise complex evidence-based policy into user-friendly consumer

advice, resulting in missed opportunities to make a strategic impact in order to promote our key messages and make a positive impact on consumer protection and health.

Initial Risk Assessment - Likelihood 2 – Impact 3. Risk Rating – 6 (MEDIUM)

8. There is a risk that local authorities fail to meet their legal obligations on food and feed due to funding pressures and conflicting priorities, resulting in environmental health and trading standards services becoming unsustainable and FSS's ability to ensure consumer protection being undermined.

Initial Risk Assessment - Likelihood 4 – Impact 4. Risk Rating – 16 (HIGH)

9. As a result of the EU referendum outcome there is a risk that key stakeholders fail to recognise the importance of FSS's key regulatory functions to support exports and international trade resulting in inability to secure exports and adversely impacting on FSS' reputation and ability to protect consumer interests.

Initial Risk Assessment - Likelihood 2 – Impact 4. Risk Rating – 8 (MEDIUM)

ANNEX B

Impact – The estimated effect of the risk on the objective or strategic outcome in question. This is focussed on scale, scope and resource implications, as well as the risk appetite of FSS.

Impact	Criteria
Very High – 5	Destructive and unacceptable impact on corporate plan objectives or strategic outcomes that would result in a major change to overall approach. Potentially large resource consequences (>£100K) that outweigh current operational circumstances.
High – 4	Significant and unacceptable impact on corporate plan objectives or strategic outcomes that would require a material change to critical approach/procedure/process. Resource implications would be challenging to absorb (£50-100K) within current operational circumstances.
Medium – 3	Moderate impact on corporate plan objectives or strategic outcomes that may require multiple changes in approach/procedure/process. Acceptable level of resource consequences (£10-50K).
Low – 2	Minor impact on corporate plan objectives or strategic outcomes, requires little overall change in approach. Few resource consequences (£1-10K).
Negligible – 1	No real impact on achieving corporate plan objectives or strategic outcomes. Financial impact <£1K.

Likelihood – This is the estimated chance of the risk occurring and is focussed on probability.

Likelihood	Criteria
Very High – 5	>75% chance of occurring – almost certain to occur.
High – 4	51-75% chance of occurring – more likely to occur than not.
Medium – 3	26-50% chance of occurring – fairly likely to occur.
Low – 2	6-25% chance of occurring – unlikely to occur.
Negligible – 1	1-5% chance of occurring – extremely unlikely to occur.

Most risks are time based and are not constant and estimating the timing of when a risk may occur is sometimes called 'proximity'. Considering this should inform a judgement on the impact or likelihood of a risk and the timing of any response.

The tables below provide a guide, in line with the SG risk management methodology, to the overall risk level based on multiplying the assessment of the impact and likelihood of a risk. This then informs the risk scores recorded on the FSS risk register format.

Assessing the impact and likelihood of a risk (5x5 matrix):

Impact	Multiplier					
Very High	5	5	10	15	20	25
High	4	4	8	12	16	20
Medium	3	3	6	9	12	15
Low	2	2	4	6	8	10
Negligible	1	1	2	3	4	5
	Multiplier	1	2	3	4	5
Likelihood		Rare	Low	Medium	High	Very High

Assessing the overall risk level:

RISK LEVEL	SCORE	RISK LEVEL DESCRIPTION
VERY HIGH	20-25	Rating: Unacceptable level of risk exposure that requires immediate mitigating action. Reporting: report the risk to SENIOR MANAGEMENT TEAM/Audit Committee/BOARD.
HIGH	10-16	Rating: Unacceptable level of risk which requires controls to be put in place to reduce exposure. Reporting: A decision should be taken as to whether risks recorded as high should be escalated. Scores between 10 and 14 would not usually be escalated where scores are 15 and 16 should be given careful consideration.
MEDIUM	4-9	Rating – Acceptable level of risk exposure subject to regular active monitoring. Reporting: At Directorate level.
LOW	1-3	Rating: Acceptable level of risk subject to regular passive monitoring. Reporting: At Directorate level. Consideration should be given as to whether risks recorded as low are still extant.