# Risk Management Strategy

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## Review/Approval Register

| Name | Position/Role | Review/Approval |
|---|---|---|
| | Senior Mgt Team | Review |
| | Board | Approve |
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## Related Documents

| Document Name | Location |
|---|---|
| The Orange Book | http://www.hm-treasury.gov.uk/d/orange_book.pdf |
| A guidance paper from the Institute of Risk Management | https://www.theirm.org/media/464806/IRMRiskAppetiteExecSummaryweb.pdf |
| Thinking about your risk | https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191520/Managing_your_risk_appetite_a_practitioners_guide.pdf |

## Glossary

| Acronym | Full Reference |
|---|---|
| LMC | Livestock and Meat Commission for Northern Ireland |
| PEST | Political, Economic, Social and Technological Analysis |
| SWOT | Strengths, Weaknesses, Opportunities and Threats Analysis |
| RACI | Responsible, Accountable, Consulted and Informed. Also known as a Responsibility Assignment Matrix |

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# 1 Document Overview

## 1.1 Introduction

LMC exists to deliver particular services and achieve desired outcomes for the Northern Ireland red meat industry. LMC faces a plethora of uncertainties in delivering effective services and in achieving desired outcomes; most of these uncertainties can be viewed as risks.

Risk is defined as "*this uncertainty of outcome, whether positive opportunity or negative threat, of actions and events*" (The Orange Book, 2004, Pg 9).

Risk can be thought of as arising in two ways:

- Direct ***threats*** (damaging events) which could lead to failure to achieve objectives: and

- ***Opportunities*** (constructive events), which, if exploited, could offer an improved way of achieving objectives but which are surrounded by threats.

In either case LMC needs to put in place a consistent strategy for managing risk in order to ensure that it has an agreed and understood methodology for achieving its objectives.

Risk is assessed by combining the ***Probability*** of something happening, and the ***impact*** which arises if it does actually happen.

- ***Probability***: the likelihood of a particular risk actually happening (including a consideration of the frequency).

- ***Impact***: the evaluated effect or result of a particular risk actually happening.

The task of management is to respond to the identified risks to maximise the likelihood of achieving the purpose. The resources available for doing so are finite and so the aim is to achieve an optimum ***response to risk***. Some degree of risk taking is necessary – the only way to avoid risk is to do nothing at all, but this will merely ensure that nothing is achieved. The amount of risk which is judged to be tolerable and justifiable is defined as the "***risk appetite".***

The task of ***risk management*** is to reduce LMC's exposure to risk to an acceptable level, by taking action on the "likelihood" and/or "impact" elements: it therefore requires LMC to identify those elements– not all of which may be controllable. LMC's ***Response*** to risk, may involve one or more of the following:

- ***Tolerating*** the risk;

- ***Treating*** the risk in an appropriate way to constrain the risk to an acceptable level or actively taking advantage, regarding the uncertainty as an opportunity to gain a benefit;

- ***Transferring*** the risk;

- ***Terminating*** the activity that has given rise to the risk.

In any of these cases the issue of ***opportunity*** arising from the uncertainty should also be considered. The level of risk remaining after internal control has been exercised (the "residual risk") is the ***exposure*** in respect of that risk, and should be acceptable and justifiable – it should be within the risk appetite.

The management of risk at strategic, programme and operational levels needs to be integrated so that the levels of activity support each other. This will ensure that LMC's risk management strategy will be led by senior management and embedded in the normal working routines and activities of the organisation.


*Figure 1: Hierarchy of Risk, The Orange Book, 2004*

## 1.2 Objective

The objective of risk management in LMC is to ensure that our threats and opportunities are managed effectively thereby creating, as far as possible, an environment of 'No Surprises'. By managing risks effectively we will be in a stronger position to deliver high quality services and better value for money to our stakeholders.

LMC's Risk Management Strategy is an essential element of our strategic planning. It describes the processes that need to be in place to identify, evaluate, address, monitor and report on our risks and describes the principles that underpin LMC's approach to risk management.

## 1.3 Responsibilities

The Chief Executive as Accounting Officer:

- Accepts overall responsibility for risk management within the organisation.

The Board:

- Agree the organisation's risk appetite.
- Approve the risk management strategy adopted within the organisation.
- Appoint an Audit and Risk Assurance Committee that will undertake responsibilities as outlined below and report back to the Board on its work
- Ensure that risk management is a standing item on the agenda for Board meetings.

The Senior Management Team:

- Sets the policy and strategy for the management of risk within the organisation.
- Conducts an annual review of internal controls in order that the Accounting Officer has adequate assurance in the controls for reporting in the Statement of Internal Control.
- Reviews strategic risks and action plans, including those identified through the operational risk management process on a periodic basis.
- Ensures that an appropriate overarching framework is in place and operational in order that the policy objectives set out above are met.
- Allocates responsibilities to individual Risk Owners and ensures that action plans are developed and implemented to manage risks.
- Identify key risks to business plan objectives as an integral part of the business planning process.
- Ensure that management plans are in place and reviewed to mitigate the key risks identified during the business planning risk assessment process.
- Ensure regular receipt and review of risk reports on key business plan objectives within their area of responsibility.
- Ensure that an escalation process is in place for key risks in their area of responsibility.
- Ensure that risk to business plan objectives is a standing item on the agenda for senior management team meetings.

Risk Owner:

- The risk owner is the person or business area to whom the Senior Management Team delegates responsibility for managing a risk.

All staff:

- All staff have a responsibility to be alert to potential areas of risk and to report these to their line manager.

Audit and Risk Assurance Committee:

- Reviews the adequacy and effectiveness of the overall arrangements put in place by management to manage risk
- Reviews the annual Statement on Internal Control.

# 2 The Strategic Risk Management Cycle

There is a continuous ‘cycle’ to the risk management process.

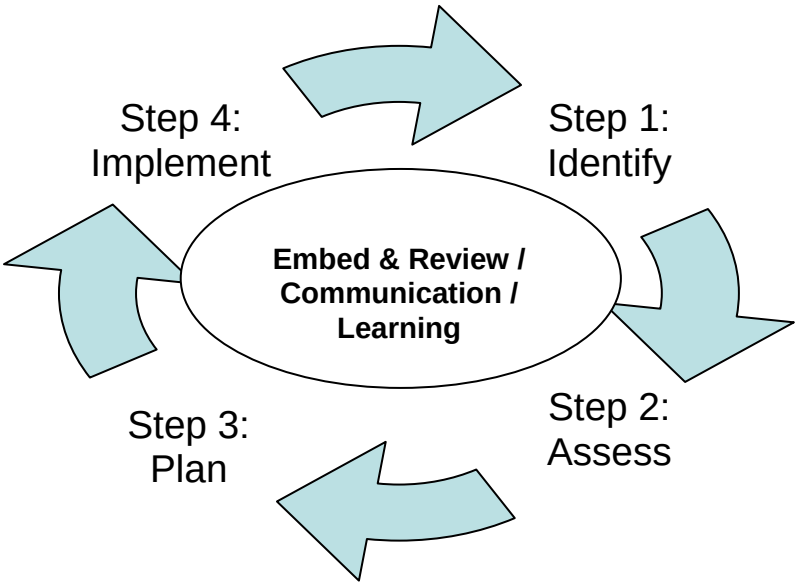


*Figure 2: The Risk Management Cycle*

The management of risk is not a linear process, rather a balancing of a number of interwoven elements that interact with each other. They need to be in balance if risk management is to be effective. The whole model has to function in an environment in which ***LMC has defined its risk appetite***.

# 3 Step 1 - Identify Risks

In order to manage risk, LMC needs to know what risks it faces, and to evaluate them. A risk may come from outside or inside LMC. These risks need to be assessed in terms of how likely they are, and the magnitude of the consequences if they were to occur.
The "Identify" stage of the process can be sub-divided into 2 steps:

1. Context
2. Identify the Risks

## 3.1 Context

Setting the context of LMC's strategic aims and business objectives will help LMC gain a wider understanding of its operating environment. Inputs to this process are not exhaustive, but much of this information will fall out of strategic reviews, stakeholder surveys, regulatory frameworks, corporate governance guidance, "Lessons Learned" documents from relevant programmes/projects and general interaction with our environment. Techniques could include PEST, SWOT (do the former before the latter), RACI and stakeholder analyses, to name but a few. Commonly, an output from this step is LMC updating its Risk Management Strategy document.

## 3.2 Identify the Risks

The aim of this step is to identify the risks that threaten the likelihood of LMC achieving our objectives, while at the same time looking for those opportunities that could lead to LMC improving its performance. Some of the most relevant types of risk that LMC is likely to encounter are included in a table at Appendix A. It provides a starting point in identifying potential risks. The outputs of this step will be the:

a. Identification of the relevant threats to LMC

b. Preparation of a Risk Register

c. Preparation of Key Performance Indicators

d. Preparation of Early Warning Indicators – e.g. fall in levy income, fall in red meat sales, staff turnover; conversely: achievement of key milestones, deliverables etc.

e. Understanding our principle stakeholders' view of the risks.

It is also important, when identifying the risks, to be able to understand the difference between ***cause, event and effect***. It is very common to define the effect rather than the event during the identification process. Therefore, the ***statement of a risk*** should be constructed from the three elements below:

a. Risk Cause. This should describe the source of the risk (it is not the risk itself, but the trigger point or "risk driver").

b. Risk Event. This should describe the area of uncertainty in terms of the threat or opportunity.

c. Risk Effect. This should describe the impact that the risk will have on LMC's activities/objectives, should the risk materialise.

***Using an example of a car journey*** *(see box below)**:***

| **Cause:** | **Event:** | **Effect:** |
|---|---|---|
| "As a result of a nail sticking in the tyre" | "there is a risk that I will suffer a flat/punctured tyre" | "which will result in my arriving late at my destination" |

Risks can only be assessed and prioritised in relation to objectives. When a risk is identified it may be relevant to more than one of LMC's objectives, its potential impact may vary in relation to different objectives, and the best way of addressing the risk may be different in relation to different objectives (although it is also possible that a single treatment may adequately address the risk in relation to more than one objective). This leads to Step 2: Assessing the Risks.

# 4 Step 2 - Assessing Risks

The primary goal of this phase is to assess the threats and opportunities in terms of their:

a. Probability

b. Impact (to include “frequency”) and, if possible

c. Proximity (i.e. when and where it might occur)

LMC uses a Risk Map, whereby the Probability and Impact for each risk are scored between low, medium and high. The overall risk score is a combination of the two and is categorised in a 3x3 matrix, outlined in Appendix B. Such a matrix can assist LMC in judging where its tolerability or “***risk appetite***” lies and in plotting all risks on the matrix to identify the priorities. Assessing the “proximity” of a risk enables LMC to prioritise the risks more accurately.

It is important that LMC differentiates between “***inherent” risk*** and ***“residual” risk***. The former represents the risk score before any control has been applied and the latter is the risk score after the control has been applied. The residual risk represents LMC’s actual exposure to the risk (assuming the control is effective). However, LMC must also score inherent risk as this will enable LMC to judge whether the risk falls within its “Risk Appetite” or not; if it falls outside its risk appetite, then a response needs to be planned and implemented.

It should be noted that even when controls are put in place to mitigate against risks, on some occasions the same risk rating will apply both before and after controls have been stated.

Once risk assessment is achieved, the highest priority risks (the key risks) should be given regular attention at Senior Management, Audit and Risk Assurance Committee (ARAC) and Board level. The specific risk priorities will change over time as specific risks are addressed and priorities change. Deciding upon how to respond to the risks is covered in Step Three.

# 5 Risk Appetite

The risk appetite is the amount of risk that LMC is prepared to accept, tolerate or be exposed to at any one time. Considering and setting a risk appetite enables LMC to increase its rewards by optimising risk taking and accepting calculated risks within an appropriate level of authority. No organisation can achieve its objectives without taking some risk.

When considering threats, the concept of risk appetite embraces the level of exposure which is tolerable and justifiable in the event that the threat is realised. It is about comparing the cost (financial or otherwise) of constraining the risk with the cost of exposure should the exposure become a reality and finding an acceptable balance.

When considering opportunities, the concept of risk appetite embraces the consideration of how much one is prepared to actively put at risk in order to obtain the benefits of the opportunity. It is about comparing the value (financial or otherwise) of potential benefits with the losses which might be incurred.

LMC's risk appetite is not necessarily static, and there will be freedom to vary the amount of risk depending on the circumstances. LMC risk appetite will be reviewed on an annual basis, and is expressed in the same terms as those used to assess risk.

All activities that we undertake must be consistent with our organisational values and mission. We will not accept risks that materially impair the reputation of LMC or its sponsor branch, Department of Agriculture, Environment and Rural Affairs (DAERA). However, we value innovation and the implementation of new services which support the achievement of our goals. To this end LMC considers itself to be "open" to risk, that is, willing to consider all potential options and choose the one most likely to result in successful delivery, while also providing an acceptable level of reward and value for money.

# 6 Step 3 - Plan

The primary goal of the "Plan" step is to prepare specific management responses to remove/reduce threats and maximise opportunities. This should ensure LMC is not taken by surprise when a risk materialises. One of the most significant outputs of this step will be the identification of individuals responsible for the response action and for overall ownership of each risk (Risk Owner & Risk Actionee, if different).

When responding to a risk, our goal will be to ensure that it does not develop into an issue. To do this we will build on HM Treasury's guidance in their 'Orange Book'. Having properly identified and assessed our risks, we will select one of the following general approaches (the Four Ts):

## 6.1 Transfer the risk

This might be done through such things as conventional insurance or by asking a third party to take on the risk in another way. Contracting out some of our services, for example, transfers some, but not all, of the associated risks. This option is particularly good for mitigating financial risks or risks to assets (such as ICT systems).

## 6.2 Tolerate the risk

Our ability to take effective action against some risks may be limited, or the cost of taking action may be disproportionate to the potential benefit gained. In this instance, the only management action required is to 'monitor' the risk to ensure that its likelihood or impact does not change. If new management options arise, it may become necessary to treat the risk in the future.

## 6.3 Treat the risk

By far the greater number of risks will be in this category. The purpose of treatment is not necessarily to terminate the risk but, more likely, to set in train a planned series of mitigating actions to contain the risk to an acceptable level. This is further subdivided into the following four controls, the first two being designed to reduce the "probability" of a risk being realised (before realisation) and the latter two being targeted more at the "impact" element (after realisation) of a risk:

i. *Preventive Controls*. This represents the majority of controls, and is designed to ***limit the probability*** of an undesirable outcome being achieved (e.g. the separation of duties to minimise the probability of fraud).

ii. *Directive Controls*. These controls are designed to ensure a particular ***outcome is achieved*** (e.g. Health & Safety: wearing protective clothing relevant to the task ensures LMC is exercising its duty of care to our employees – it also has a preventive element to it).

iii. *Corrective Controls*. This is designed to ***correct undesirable outcomes***, if they are realised (e.g. Insurance, or drafting a contract that includes recovery from loss or damage caused by a third party).

iv. *Detective Controls*. Designed to ***identify when/where*** an undesirable outcome has occurred. This will only be used for risks that fall within LMC's "Risk Appetite" and we find the level of loss acceptable (e.g. stock / asset checks).

As every control has an associated cost, it is important that the control that LMC implements is proportional to the level of the risk identified. In other words, the purpose of control is to constrain risk, not to eliminate it.

## 6.4 Terminate the risk

This is a variation of the 'treat' approach and involves quick and decisive action to eliminate a risk altogether. For example, the health or environmental impacts of using a particular chemical may be such that the appropriate action is to ban the use: in other words, terminate the activity.

## 6.5 Taking the Opportunity

This option is not a "Fifth T", but should be considered when deciding to "Transfer, Tolerate or Treat". For example, does the risk of an out-of-house service provider ending its contract, provide LMC with the opportunity to achieve an improved service elsewhere? The potential opportunities should always be considered when addressing these actions.

We recognise that any risks could suddenly be realised, and become a critical issue, even those assessed as having a relatively low likelihood. Our assessments could be wrong, circumstances might change before we have time to respond, or external events such as terrorist activity, could alter our view of situations, and the nature of the risk. We will consider in advance what action to take if a risk develops or a crisis occurs. These are our 'Contingency Plans' and they are essential to creating an environment of 'No Surprises'. We will have Contingency Plans for all risks that have been assessed as having potentially High impact, irrespective of the probability rating, and our plans will be rehearsed.

We will prepare Business Continuity Plans to help keep the business running during times of change or disruption. These will usually be for relatively isolated events, such as office moves or organisational change and will be the responsibility of the manager of the relevant business area affected.

# 7 Step 4 – Implement the Plan

The primary goal of the "Implement" step is to ensure that the planned risk management actions are ***executed***, ***monitored*** as to their effectiveness, and ***corrective action*** taken where necessary. The three key actions in this step are:

a. Executing. All the time, energy effort and finances expended in Steps 1 to 3 will be wasted unless the responses have been actioned.

b. Monitoring. Monitoring is required to understand if our actions have achieved the desired outcomes. This is broader than simply reviewing action plans; it must also involve looking at emerging threats and opportunities.

c. Controlling. Monitoring is a passive activity, whereas controlling requires intervention. Controlling uses the information collected during monitoring to take proactive and corrective action.

The Risk Register must be kept up-to-date with new risks (e.g. continued horizon-scanning), closed risks, revised post-mitigation residual risks, planned responses, sources of risk and probabilities of threats and opportunities. Early Warning Indicators must be amended to reflect changes in our operating environment.

Risk management is a dynamic process – new risks will be identified, some will be terminated, contingency plans and countermeasures will need to be updated in response to changing internal and external events, and our assessment of probability and impact will also need to be reviewed, particularly in the light of our own management actions.

The LMC Board will keep the main risks under regular strategic review. Senior management will monitor progress on the risk register at routine management meetings and ensure that all aspects of risk management are reviewed at least once a year.

The ARAC (established as a Committee of the Board, with non-executive membership) supports the Accounting Officer in his responsibilities for issues of risk, control and governance and associated assurance[1]. The ARAC should be asked by the Accounting Officer/Board to:

- gain assurance that risk, and change in risk, is being monitored
- receive the various assurances which are available about risk management and consequently delivering an overall opinion about risk management
- comment on appropriateness of the risk management and assurance processes which are in place

However it should be noted that the ARAC does not itself own or manage risks and is (as with internal audit) not a substitute for the proper role of management in managing risk.

[1] See the "Audit Committee Handbook", HM Treasury, March 2007, for more detail.

# 8 Communication and Learning

Communication and learning is not a distinct stage in the management of risk; rather it is something which runs through the ***whole risk management process***. There are number of aspects of communication and learning which should be highlighted.

The identification of new risks or changes to current risks is dependant on communication. LMC must maintain a good network of communications to facilitate identification of changes which will affect our risk profile.

Communication within LMC about risk issues is important for the following reasons:

a. To ensure that everybody understands, in a way appropriate to their role, what LMC's risk strategy is, what the risk priorities are, and how their particular responsibilities in LMC fit into that framework. If this is not achieved, appropriate and consistent embedding of risk management will not be achieved and risk priorities may not be consistently addressed.

b. There is a need to ensure that transferable lessons are learned and communicated to those who can benefit from them. For example, if one part of LMC encounters a new risk and devises an effective control to deal with it, that lesson should be communicated to all others who may also be exposed to that same risk.

c. There is a need to ensure that each level of management, including the Board, receives appropriate and regular assurance about the management of risk within their span of control. They need to be provided with sufficient information to gain assurance about risks which are deemed to be acceptably under control or to allow them to advise on appropriate courses of action in respect of risks that fall outside LMC's risk appetite. As well as routine communication of such assurance there should be a mechanism for escalating important risk issues which suddenly develop or emerge.

Effective communication with partner organisations is also vital e.g. It is important to communicate with stakeholders about how LMC is managing risk to give them assurance that the organisation will deliver what they expect, and to manage stakeholder expectations of what LMC can realistically deliver.

# Appendix A: Main Types of Risk LMC is likely to face

| | |
|---|---|
| **1. External -** *arising from the external environment, not wholly within the LMC's control, but where action can be taken to mitigate the risk* | |
| 1.1 Political | Change of government, cross cutting policy decisions (E.g. – the Euro; machinery of government changes |
| 1.2 Economic | Ability to attract and retain staff in the labour market; exchange rates affect costs of international transactions; effect of global economy on UK economy, increase in live exports |
| 1.3 Socio cultural | Demographic change affects demand for services; stakeholder expectations change |
| 1.4 Technological | Obsolescence of current systems; cost of procuring best technology available |
| 1.5 Legal | EU requirements |
| 1.6 Environmental | Buildings need to comply with changing standards; disposal of rubbish and surplus equipment needs to comply with changing standards |
| **2. Operational -** *relating to existing operations – both current delivery and building and maintaining capacity and capability* | |
| **2.1 Delivery** | |
| 2.1.1 Service / product failure | Fail to deliver the service to the user within agreed/set terms |
| 2.1.2 Project delivery | Fail to deliver on time/budget/specification |
| 2.1.3 Capacity and capability | Lack of sufficient resources/skills to deliver objectives |
| 2.1.4 Resources | Financial (insufficient funding, poor budget management, fraud)<br>HR (staff capacity/skills/recruitment and retention)<br>Information (adequacy for decision making; protection of privacy)<br>Physical assets (loss/damage/theft) |
| 2.1.5 Relationships | Delivery partners (threats to commitment to relationship/clarity of roles)<br>Customers/Service users (satisfaction with delivery)<br>Accountability (particularly to Parliament) |
| 2.1.6 Operations | Overall capacity and capability to deliver |
| 2.1.7 Reputation | Confidence and trust which stakeholders have in the organisation |
| **2.2 Risk management performance and capability** | |
| 2.2.1 Governance | Regularity and propriety/compliance with relevant requirements/ethical considerations |
| 2.2.2 Resilience | Capacity of systems/accommodation/IT to withstand adverse impacts and crises (including war and terrorist attack). Disaster recovery/contingency planning |
| 2.2.3 Security | Of physical assets and of information |
| **3. Change** - *risks created by decisions to pursue new endeavours beyond current capability* | |
| 3.1 PSA targets | New PSA targets challenge the LMC's capacity to deliver/ability to equip the organisation to deliver |
| 3.2 Change programmes | Programmes for organisational or cultural change threaten current capacity to deliver as well as providing opportunity to enhance capacity |
| 3.3 New projects | Making optimal investment decisions/prioritising between projects which are competing for resources |
| 3.4 New policies | Policy decisions create expectations where the organisation has uncertainty about delivery |

# Appendix B: Risk Map

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|---|---|---|---|---|
| Probability | High | Acceptable Risk<br>Medium<br>2 | Unacceptable Risk<br>High<br>3 | Unacceptable Risk<br>High<br>3 |
| | Medium | Acceptable Risk<br>Low<br>1 | Acceptable Risk<br>Medium<br>2 | Unacceptable Risk<br>High<br>3 |
| | Low | Acceptable Risk<br>Low<br>1 | Acceptable Risk<br>Low<br>1 | Acceptable Risk<br>Medium<br>2 |
| | | Low | Medium | High |
| | **Impact** | | | |

**Probability**

The probability of the threat being realised will be expressed in terms of High (H), Medium (M), or Low (L) using the definitions below:

H: Very likely or almost certain (based on past experience in this or a similar area of the risk is likely to occur this year or at frequent intervals)
M: Likely (risk is likely to occur more than once in next 3 years)
L: Possible or very infrequent (based on past experience and expertise, the risk may occur within the next year but it is not likely)

**Impact**

The effect of the hazard or threat being realised will be expressed in terms of High (H), Medium (M) or Low (L) using the definitions below:

H: large financial loss; death; key deadlines missed; very serious legal concerns (e.g. high risk of successful legal challenge, with substantial implications for the LMC); major environmental impact; loss of public confidence.

M: major financial loss; significant public health effects; important deadlines missed; potentially serious legal implications; significant environmental impact; longer term damage to reputation;

L: financial loss; minor or reversible health effects; reprioritisation of activities; minor legal concerns; minor impact on the environment; short-term reputation damage.

In assessing the impact, we should take into account the potential scale of the consequences. We should also clearly describe those situations where the impact is irreversible. In each case, we will relate the potential impact back to LMC objectives.

When assessing the potential financial impact of a risk, we will consider both the value at risk and the potential cost of rectification, to enable us to manage resources appropriately and focus on those risks with a potentially high impact.

# Appendix C: Risk Register

To assist the common approach to risk management, risks will be recorded in a register with the following standard information (as appropriate):

- Ref Number as identifier
- Strat Obj. The Strategic Objective(s) that the risk impacts.
- Risk. Details of the risk.
- Inherent Probability/Impact - assessment of the probability of the risk occurring (H, M, L) and assessment of the impact, should the risk occur (H, M, L).
- Programme Severity – overall assessment of severity based on assessment of Probability and Impact (H, M, L)
- Response - 4 T's
- Control. Details of the counter-measures, identifying whether the counter-measure will reduce probability, impact or both.
- Reviewed risk (in light of counter-measures) with residual risk assessed re:
    - (Revised) Probability
    - (Revised) Impact
    - (Revised) Programme Severity – RAG status should be used to depict current status of the risk (see above)
    - (Revised) Response
- Residual Risks Identified – link to other risks (if applicable)
- Action Proposed – detail of what further action is required to counteract any residual risk
- Action by whom
- Action by date
- Next Review Date