

## ANNUAL REPORT TO THE FSA BOARD FROM THE CHAIR OF THE RISK COMMITTEE

### Executive Summary

1. The report to the FSA Board from the Chair of the Risk Committee is attached. The report is an account of the key achievements of the Risk Committee and outlines the work of the Committee.

### Board Action Required

2. The Board is asked to:
  - **note** the Risk Committee is satisfied with the progress made by the Executive in 2008/09 on improving its risk management; and
  - **agree** to the Committee's recommendation for the Risk Committee to carry on working as a separate committee, and for this to be reviewed in June 2010.

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## **ANNUAL REPORT TO THE FSA BOARD FROM THE CHAIR OF THE RISK COMMITTEE**

### **Issue**

1. To report to the Board on the progress made by the Executive to improve the effectiveness of risk management in the FSA during 2008/09.
2. The future of the Risk Committee.

### **Background**

3. In 2006 the Risk Committee was established following a review of the FSA's risk management processes. The committee draws its membership from the both Board and Executive. The MHS Chief Executive is a member of the committee, thus ensuring a common approach to risk management issues across the organisation. Full terms of reference including membership are at Annex 1.
4. In June 2008 the Committee produced its first Annual Report, covering 2007/08. The report outlined how the Risk Committee had supported the Executive in:
  - reviewing the FSA's processes for identifying, mitigating and managing risks; and
  - the development of a High Level Risk Register and integrating risk in planning and business performance systems;
5. A lot of the work completed in 2007/08 focused on a 'top down' approach to risk management and the Executive was advised to build on this work by developing more of a 'bottom up' approach to risk management during 2008/09 and to improve staff attitude towards risk across the FSA.
6. This is the second Annual Report from the Committee to the Board

### **Progress made in 2008/09**

7. The Committee continued to advise, support, and challenge the Executive throughout the year. Two meetings took place as scheduled, one in October 2008 and the second one in April 2009.<sup>1</sup>

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<sup>1</sup> This meeting was originally scheduled for March 2009 but had to be rescheduled to April 2009 to accommodate the Executive.

8. As Chair of the Committee, I report that the Executive has made considerable progress in 2008/09 in embedding effective risk management across the FSA. Some of the good work delivered includes:

- The development of Group risk registers that promote a structured bottom-up approach to risk management, and give assurance that risks are being discussed and monitored beyond the High Level Risk Register;
- The introduction of a Planning, Performance and Risk Management training course to enhance staff capabilities;
- The development of one FSA risk policy document and process so that a common approach is applied in both the FSA and MHS;
- Improved links with internal audit where risk registers inform the internal audit plan and the outcomes from internal audits feed back into the risk process and risk registers;
- The provision of a stronger challenge, at group and corporate level, on the types of risks that appear on risk registers and the mitigation actions taken;
- An important overview role by the planning and performance team to identify common risks and trends across Groups;
- Investing in the development of the skills and knowledge of the planning and performance team as they promote a risk-aware culture across the FSA;
- Sharing knowledge and experience with other Departments through the Risk Improvement Group <sup>2</sup>; and
- Including risk identification as a key element of the Strategic Plan development.

9. The Committee has discussed the progress made and reviewed the evidence provided. We have concluded that the Executive is giving risk the right level of commitment and priority that is required and indeed has come a long way in improving risk management since the Committee was set up in 2006.

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<sup>2</sup> The Risk Improvement Group is a cross-government network of people who are engaged in lead corporate risk roles within departments, executive agencies and NDPBs

## **Work programme for 2009/10**

10. For 2009/10 we expect to see the same positive commitment given to risk management, as promoting a risk-aware culture is a continuous process. We have given the Executive advice on areas that they should look at in 2009/10 that will help this process, such as:

- Ensuring that the Strategic Plan process and finalisation is used as a key driver in identification and assessment of the risks faced by the FSA in the eyes of the external community;
- Refining the High Level Risk Register to reflect the real risks that exist in a wider context and which may not be specific to one strategic activity or another;
- Applying a common risk scoring matrix to major projects; and
- Engaging staff below management level to focus on risk management.

## **Resources and sustainability**

11. Risk committee meetings take place in conjunction with Board meetings, thus minimising any cost to the organisation. The secretariat is provided by the FSA's Strategy and Finance division within its existing resources. We do not anticipate any increase in resource requirements during 2009/10. We therefore believe that the committee operates in a sustainable manner.

## **The future of the Risk Committee**

12. As set out in our terms of reference we are required to review our role as a committee and report to the Board by June 2009. The main issue is whether the Risk Committee should continue as a stand-alone committee or be incorporated into the Audit Committee.

13. The Risk Committee discussed this at length in April. There are arguments for and against bringing the two committees together.

14. Arguments for a merger include:

- The risk system has been designed, tested and largely implemented and is getting well embedded, so we could say our job is done. Everyday risk management should now lie with the Executive;

- The current revised Strategic Plan work is nearing completion and incorporates risk through its stakeholder identification. It will be business as usual; and
- Risk is often a key part of an Audit Committee's responsibilities.

15. Arguments against a merger include:

- While good progress has been made, there is still more we can do in learning what we truly mean by risk. For instance, helping the FSA explore how leftfield risks could impact on us;
- The Audit Committee currently has a significant workload as it incorporates the MHS. Now may be the wrong time to increase its workload further;
- Currently, risk is very high profile. The lessons from the failure of the risk systems in the financial sector have not been learned. We are moving to a more risk-based government philosophy. To be seen to 'scrap' the Risk Committee at this time might attract negative publicity for us.

16. The Risk Committee strongly believe that the arguments for staying separate at this stage outweigh the arguments for a merger. The Committee therefore recommends the Board agree to:

- The continued existence of the Risk Committee under its current terms of reference;
- A review of the Risk Committee in June 2010<sup>3</sup> and a decision made on its future based on the situation at that time.

### **Board action required**

17. The Board is asked to:

- **note** the Risk Committee is satisfied with the progress made by the Executive in 2008/09 on improving its risk management; and
- **agree** to the Committee's recommendation for the Risk Committee to carry on working as a separate committee, and for this to be reviewed in June 2010.

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<sup>3</sup> The Chair of the Risk Committee, Chris Pomfret, and the Chair of the Audit Committee, Graeme Millar, both leave the Board in February 2011. June 2010 is a good time to have decided where we want to go long term with the Risk Committee so that succession(s) can be planned.

## FSA RISK COMMITTEE

### Terms of Reference (ToR) – revised July 2007

#### 1 Objectives of the Committee

1.1 To provide **advice, support and challenge** to the Executive in relation to:

- the introduction and implementation of the FSA's new processes for risk identification and management relating specifically to delivery of the Strategic Plan and fulfilling statutory obligations<sup>4</sup>.
- the high level risks identified.

1.2 To **provide assurance** to the Chief Executive and FSA Board **that risk management is effective** across the FSA.

#### 2 Timings and reporting

- To meet twice in the next 6 months, during the early implementation phase of the new FSA planning processes, and thereafter 2 or 3 times a year.
- To report to the Board on ~~a six monthly basis~~ **an annual basis**.

#### 3 Meetings

- The Risk Committee may ask any other official, either internal or external, to attend to assist it with its discussions on any particular matter.
- The Accounting Officer/Chair may ask the Risk Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.
- Where members are unable to attend meetings, two members of the Board and two members from the Executive will form a quorum for the meeting.
- Strategy Division will provide the secretariat to the Risk Committee.

#### 4 Recommendations

- The Board will review the Risk Committee by the end of June 2009, or earlier if deemed necessary by the FSA Chair.

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<sup>4</sup> For avoidance of doubt the Audit Committee will be responsible for risks relating to financial processes and propriety.

## **Risk committee membership – updated April 2008**

### **Non-executive Board members**

Chris Pomfret (Chair)  
Tim Bennett  
Margaret Gilmore  
Graeme Millar  
Michael Parker  
Nancy Robson

### **Executive members**

Richard Calvert  
Terrence Collis  
Steve McGrath  
Andrew Wadge