



ISCC 207 Risk Management

Risk Management

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1 Introduction

In order to provide for the requirements of the certification system with high reliability, a risk management procedure is defined. This procedure is an integral part of operations and decisions in the ISCC system and is based upon a number of risk indicators that are monitored and adjusted continuously. ISCC has considered the requirements of ISAE 3000 in its system set up especially with respect to quality control, risk management by ISCC and the auditor, planning and performing of audits, sampling processes and reporting.

2 Scope

Implementation of certification procedures and monitoring of farms and other relevant elements of the supply chain for sustainable products.

3 Normative references

As a basic principle, all relevant ISCC documents are valid for the scope. The normative references display the documents whose contents are linked and have to be considered as conjoint points.

Relevant references:

ISCC 201 System Basics

ISCC 202 Sustainability Requirements – Requirements for the Production of Biomass

ISCC 203 Requirements for Traceability

ISCC 204 Mass Balance Calculation Methodology

ISCC 205 GHG Emissions Calculation and GHG Audit

ISCC 251 Requirements for Certification Bodies

ISCC 252 Regulations to carry out Audits

ISCC 256 Group Certification

4 Risk Management

4.1 General principles of the ISCC Risk Management

The following general principles apply for the organization of the risk management:

- Different levels of the risk management guarantee the consistent and reliable implementation of certification procedures within the ISCC system:
 - Level of the participating elements of the supply chain
 - Level of the certification bodies
 - Level of the ISCC system
- The risk management is a component of all decision-making processes within the ISCC System. Wherever relevant, the risk indicators of the system have to be an integral part of the decision-making processes of the elements and institutions of the supply chain.
- The risk indicators listed in this document are subject to continuous monitoring and adjustment, based on the audit results as well as on the general experiences from the ISCC practice.
- In principle, a certificate is only issued to a participating element after an on-site audit.
- The results of the risk management are incorporated in the continuous improvement of the ISCC system and thus, in the refinement of the standards, where appropriate.
- The auditor should obtain an understanding of the subject matter and other audit circumstances, sufficient to identify and assess the risks
- Auditors should plan and carry out the audit with respect to nature, timing and extent of evidence gathering procedures in such a way that a meaningful level of assurance for a decision regarding compliance with the ISCC requirements is available
- Regarding the sustainability requirements, the focus of the risk management is on the farms/plantations which are audited either individually or as a member of a group. Regarding the traceability the focus is on all elements of the supply chain.
- For farms/plantations participating in group certification and warehouses the risk assessment will determine the sample sizes for the audit
- The evaluation of the risk on farm level and of the resultant sample size has to be based on the principles outlined in document ISCC 202. Country specific tools supporting the risk assessment can be found there as well. (ISCC 202, Annex 1). The sample size for the farms (as part of the group certification) is determined according to the detected risk.
- Generally there are no country-specific demands regarding the traceability. If an accumulation of misuse emerges in single countries, ISCC immediately will implement a Technical Work Group for the development of improvement actions. These improve-

ments will look about the specific reasons for the misuse. Only after a careful risk analysis, a well-founded determination of the sample size (which may in certain cases deviate from the standard sample size) and verification of the selected entities it is possible to issue a certificate.

4.2 Levels of the Risk Management

4.2.1 Implementation of the standards through the participants in the ISCC system

Each element of the supply chain that aspires to take part in the ISCC system must start the ISCC standards implementation process by carrying out a self assessment in view of the ISCC risk categories. In analogy to the external evaluation through the certification body, the self assessment is conducted based on the risk indicators listed in this document.

Corresponding to the evaluation result, the element of the supply chain should design its management system in a way to minimise the identified risks.

In their audits, the certification bodies take into account the interconnection of the self assessment's result and the design of the management system.

4.2.2 Activities of the certification bodies

By applying the risk management requirements the certification body ensures that the relevant elements of the supply chain are assessed frequently and intensively enough. Certification bodies control these elements according to the specifications of their risk management and according to the risk-relevant specifications of ISCC.

Prior to each first audit, the certification bodies must conduct a risk assessment for the relevant element of the supply chain and classify it according to the three ISCC risk categories (regular, medium, high).

The risk indicators listed in this document are to be used for such classification.

Corresponding to the result of this assessment the style and frequency of the audits are determined.

Prior to each first certification, the certification bodies may check actual ISCC documents, whether country-specific information is available for the region where the relevant element of the supply chain is located. (see also ISCC 202, Annex 1). The result of this check must be taken into consideration when the audits are carried out.

4.2.3 Activities of ISCC

The risk management is integral part of the quality management of the ISCC system.

For all regions where elements of the supply chain are located, ISCC has started to develop abstracts of country-specific particularities, which have to be considered with regard to the risk management. This is being done by the analysis of global databases, feedback from the fields, the analysis and identification of national protected and high conservation value areas (e.g. on the basis of global maps such as the World Database on Protected Areas, protected areas declarations, laws on nature conservation, collaboration with research institutes etc.).

The demarcation of such an area has to be decided on an individual basis and documented accordingly.

If a certification body inquires about a region in which elements of the supply chain participating in ISCC or planning to do so are located and none of the information specified above is available, ISCC has to provide this information within six months.

4.3 Risk indicators

The risk indicators form the basis for the assessment and evaluation of the risk on the different levels of the ISCC system. They shall be applied to all relevant elements of the respective company/ site to be audited

As long as not defined by ISCC, a further definition of the indicators shall take place by the certification bodies as a more detailed definition cannot take place a priori.

4.3.1 General risk indicators

- Specification of the responsibilities and decision-making power (decision-maker(s) determined, documented and available)
- Expertise, education and training of all employees
- Proportion of permanent, temporary and seasonal employees as well as communication and language diversity
- Determination, structuring, organization and documentation of the number of work flows and their complexity (in-house processes)
- Number, structuring, organization, expertise, management, involvement and controlling of the subcontractors
- Number and structuring of the workflows that are carried out by subcontractors compared to the ones that are carried out by permanent in-house staff
- In-house quality management system, internal audits
- Transparency (public reporting, involvement of local interest groups, independent audits, Triple Bottom Line)
- Mechanisms for conflict resolution established independently, documented and implemented
- Management of conflicts of interests and corruption prevention
- Risk of corruption (OECD list) – i.e. how serious is the external risk of corruption and how does this influence the implementation
- Yield or conversion factors in internal processes.

4.3.2 Supplementary risk indicators for farms

In addition to the general risk indicators, the following factors must be taken into account when dealing with farms:

- (1) Proximity to and/or overlap with no-go areas (forest land, peat land, wetlands, highly biodiverse grassland, etc.)

- (2) Land conversion shortly before or after January 1st 2008
- (3) Cultivation of sustainable and non-sustainable biomass on the same farm and/or in close proximity.
- (4) Factors influencing significantly the output per acreage and the output per ha.

4.3.3 Supplementary risk indicators for the other elements of the supply chain

In addition to the general risk indicators, the following factors must be taken into account when dealing with the risk assessment according to ISCC 203, 4.1

- (1) Accuracy of records and documents
- (2) Degree of topicality, updating frequency of records and documents
- (3) Accessibility of records and documents
- (4) Completeness of records and documents

4.4 Assessment, evaluation and management of the risk

The identification, the evaluation and the management of the risk is carried out in four steps:

- (1) Identification of the risk
- (2) Analysis of the risk
- (3) Evaluation of the risk
- (4) Management of the risk

These four steps are adjusted to each application level. The results of all four steps must be documented.

4.4.1 Identification of the risk

At first, the relevant risk indicators listed in chapter 4.3 of this document will be assessed for the unit to be evaluated according to its individual conditions. An analysis of the bio geographic conditions and/or the relevant processes may require defining further risk factors which are not specified within the ISCC system.

4.4.2 Analysis of the risk

For the analysis of the risk, the following elements can be taken into consideration:

- Causes and sources of the risk
- Possible consequences from the risk and the probability of its occurrence
- Factors influencing the consequences and the probability
- Differing appraisal of the risk by different stakeholders

4.4.3 Evaluation

After the risk has been specified, the specific situation to be evaluated is designated to one of the three risk categories:

- Regular risk (risk factor 1,0)
- Medium risk (risk factor 1,5)
- High risk (risk factor 2,0)

The designation is based on an estimation how the existing regulations of ISCC must be adjusted in order to account for the respective risk factor. If the risk is not known the highest risk category must be applied.

With respect to ISCC 203, 4.1 following guidance can be given for the risk evaluation:

- If the records and documents according to ISCC 203, 4.1 are kept accurately, up to date and complete as well as easily accessible, the risk should be ranked as regular
- If the records and documents are not kept accurately and not easily accessible, the risk should be ranked as medium
- If the records and documents are not continuously up to date and not kept to full extent, the risk should be ranked as high.

It is up to the auditor's discretion to discontinue the audit if the risk is ranked high and if either the documentation is not easily accessible or the amount of unavailable documentation does not allow for a professional audit.

4.4.4 Management of the risk

After the evaluation and the audit, a management of the risk is undertaken. This is usually by applying the following elements:

- Adjusting the intensity and the frequency of audits
- Carrying out unannounced audits
- Adjusting the tasks of the management of an element of the supply chain, specifically concerning
 - Specification of responsibilities
 - Training of the employees
 - Documentation
 - Duty to report
 - Internal auditing system
- Extending the definition of risk factors for certain areas by ISCC

4.5 Defining the samples

4.5.1 Sample size

Samples are only taken from farms/plantations participating in group certification and warehouses which are part of a company's logistics network (see also ISCC 252). The sample size for farms/plantations is defined in ISCC 256 Group Certification. The audit of ware-

houses which are part of a company logistics network includes the audit of the logistic centre (hub) plus a minimum sample of the square root of the number of associated warehouses (spokes) which are subject to a risk assessment by the auditor. For medium risk the minimum sample must be multiplied by 1,5. For high risk the minimum sample must be multiplied by 2,0. An increase of the sample size according to the individual situation and based on the auditors risk assessment is possible.

Should one or more of the entities from the sample be non-compliant with respect to the ISCC requirements the sample must always be doubled. For example: If the minimum sample size was 10, the new sample size shall be 20. If again one or more of the audited entities do not comply with the requirements the sample must be doubled, i.e. the new sample size is 40. Already audited entities should be used again within the new sample unless they are needed to achieve the sample quantity. This process could continue until 100% of the entities have been audited. Warehouses that were audited non-compliant are excluded from the scheme. This is valid until each of the respective entities based on their own initiative pass a successful audit earliest one year later.

As long as there are no indications of abuse none of the successfully audited entities from the previous year shall be part of the sample of consecutive audits as long as not all of the entities have already been subject to an audit.

The rationale for defining a minimum sample size of the square root of the number of warehouses which are part of a company logistics network is threefold:

- The warehouses which are part of a company's logistics network are integrated into one management system, ERP system and with the same requirements
- The two year ISCC pilot project and current operating experience gave evidence that in cases of regular risks the minimum sample meets the necessary level of confidence
- Warehouses within the global mass commodity market comply since decades with highest quality standards on behalf of their customers because of the high value nature of the goods.

4.5.2 Intensity level of the chain of custody audit

In the case of the chain of custody audit (traceability and mass balance audit) the definition of the risk factor does not only drive the sample size for warehouses (4.5.1) but also the intensity of the audit. Although the entire documentation for a complete year must be available in order to evaluate the mass balance calculation and allow for plausibility checks between company reporting and mass balance results, the auditor must not check every document (e.g. weighbridge tickets). The auditor must be able to take individual random samples to check whether records and documents meet the requirements for traceability. Following guidelines should be taken into account:

- If the risk is ranked regular random document samples from [REDACTED] are sufficient to assess whether the general and the specific information requirements are met.
- If the risk is ranked medium, random document samples from [REDACTED] as well as all documents from one complete month should be checked.

- If the risk is ranked high, the documents of [REDACTED] should be checked completely.

Depending on the risk assessment during the audit, the auditor can decide whether to increase or reduce the scope of the audit and the sample size