
 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
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Content

No	Topic	Page
1.	Introduction	2
2.	Scope	2
3.	Normative References	2
4.	Risk Management	3
	4.1 Risk Identification	3
	4.2 Risk Analysis	3
	4.3 Risk Assessment and Risk Classification	3-4
	4.4 Risk Mitigation	5
5.	Impacts of the Risk Classification	5
6.	Annex I – Questionnaire for Self Assessment (SA)	6-9
7.	Annex II – MSPO Audit Duration	10-13
8.	Annex III – Formula in Calculating Sample Size	14

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

1. Introduction

In certification system activities, there is the potential for event and consequences that may give threats to the success, stability and credibility of the system. This potential is also known as “risk”. It can be minimised through an appropriate comprehensive “risk management” planning approach, which helps to ensure that all the risk that arises is managed effectively and efficiently in proper manner.

The MSPO risk management planning approach is designed to identify and address the respective risk that may arise from the implementation of the MSPO certification systems process. The Risk management comprises 4 different stages in a structured way: Risk identification, risk analysis, risk assessment, and risk mitigation.

It considers the risks that external and internal factors add to the MSPO system at each particular activity, and which could result in damages to the certification activities process if not addressed comprehensively, effectively and consistently.

The MSPO risk management approach applies to all operators which participate in the MSPO system, meaning to the whole supply chain of palm oil industry in Malaysia (Oil Palm Dealers, Smallholders, Estates, Mills, Refineries, Palm Kernel Crusher, Biofuel and Bulking).

The MSPO risk management approach also applies to the certification bodies involved in MSPO certification.


2. Scope

The intent of this document is to harmonize the risk management approach by operators and certification bodies for the certification cycle. It provides a common approach to identify, analyze, assess and consider the risks in the certification process, which palm product related operations add to the MSPO system.

3. Normative Reference

In addition to normative references as listed in MSPO Certification Scheme, following normative references apply for the users of this document:

ISO 31000:2009 Risk Management – Principles and Guidelines

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

4. Risk Management

The risk management plan is a systematic set of strategic process of evaluating the potential risks that are attached to a possible activity or responsibility. In order to minimize the risk, the management of the risk is carried out in four steps:

- (1) Risk identification
- (2) Risk analysis
- (3) Risk assessment
- (4) Risk mitigation

4.1 Risk identification

The operator shall identify and document at this stage where the sources of risk, areas of impacts, events, and their causes and potential consequences from its operations.

4.2 Risk analysis


After the potential risk has been identified from the risk identification stage, the operator shall carry out the analysis of the risk. In order to analyze the risk, the following elements can be taken into consideration:

- Causes and sources of the risk
- Probability of occurrence of positive and negative consequences
- Factors that affect the probability and extent of negative consequences
- Potential extent of damage cause by the negative consequences to the success, stability and credibility of the MSPO system

4.3 Risk assessment and risk classification

The risk assessment is based on the outcomes of the risk identification and the risk analysis. It consists of the self-assessment of the operator and verify by the certification body.

For that purpose:

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

- i) The operator shall provide a self-assessment of the risks (“**Self-Assessment**”) which its operations add to the MSPO system, by
- Describing the results of its risk identification,
 - Describing the results of its risk analysis, and by
 - Completing the above with the description of measures to mitigate and manage the risk in an appropriate way.

The operator shall at least use the **questionnaire in Annex 1** of this document, but might provide additional information.

- ii) The operator shall send the Self-Assessment to the relevant certification body in advance to a stage 1, surveillance audit and recertification audit.

In case the self-assessment precedes a surveillance audit, the operator might concentrate on changes in identified and analyzed risks to the previous Self-Assessment, and how the operator mitigates and manages the new/changed risk.

- iii) The certification body shall verify the Self-Assessment during Stage 1 audit by
- Plausibility check and check of correctness, and
 - Considering previous audit results, if applicable.
 - If the CB found Self-Assessment not correct then the operator will be categorized as high risk

- iv) The certification body shall classify the operator under one of the three risk categories:

- **Low risk** (risk factor 1.0):


If the identified risks with regard to the area and operations to be audited are correct, complete and easily accessible, the risk can be assessed as low.

- **Medium risk** (risk factor 1.5):

If the identified risks with regard to the area and operations to be audited are not correct, not easily accessible, but complete, the risk can be assessed as medium.

- **High risk** (risk factor 2.0):

If the identified risks with regard to the area and operations are not correct, not updated on a continuous basis and not completely available, the risk has to be assessed as high.

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

4.4 Risk mitigation

4.4.1 The operator shall mitigate its risk following the results of the risk assessment. There are several options (single or combination of) to minimize the identified risk, such as:


- i) Avoiding the risk by deciding not to start or continues with the activity that gives rise to risk;
- ii) Taking and managing the risk in order to pursue a opportunity;
- iii) Removing the risk source;
- iv) Changing the likelihood;
- v) Changing the consequences;
- vi) Sharing the risk with another party or parties;
- vii) Retaining the risk by informed decision.

4.4.2 The certification body assesses the risk mitigation measures of the operator during its audit.

5. Impact of risk classification


The classification of the risk of an operator impacts

- The number of the man-days required to conduct the MSPO audit (**Annex II**), and
- In case of group certification, the determination of the sample size of group members to be visited (**No. 4.3.4, Annex III**)


 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

Annex I – Questionnaire for Self Assessment (SA)


No	Questionnaire	No	Yes	
<u>A. Management Responsibility</u>				
1.	Does your company have a management person responsible for the sustainability issues?	2	0	
2.	Does your company publish a sustainability report?	2	0	
3.	Does your company organize training sessions to enhance the understanding of sustainability (environmental and social aspects and impacts of operations, and was to manage/improve them)?	2	0	
4.	Does your company provide transparent information on the company's operations for the public access?	2	0	
5.	Does your institution has a Quality Management System (QMS) and does it conduct an internal audit every year?	2	0	
<u>B. Social Aspect</u>				
		No	Partially Available	Yes
1.	Does your company have a policy covering the following <ul style="list-style-type: none"> - respect for human right, - no forced labour, - no child labour, - working condition, - wages & benefits, 	4	2	0

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

	<ul style="list-style-type: none"> - non-discrimination, - freedom of association and collective bargaining <p>*Please refer to Principle 4 Criteria 5 Indicator 14 (MSPO Standard)</p>			
		No	Yes	
2.	Does your site have a management system in place to manage the social issue policies described in question 1?	2	0	
3.	Have safety & health audits been conducted at this site?	2	0	
4.	Does your company have a written safety& health policy in place which complies with industry, national and international standard?	2	0	
5.	Does this site have a safety & health management system in place?	2	0	
		No	Yes, internal audit	Yes, external audit
6.	Was a social audit been conducted at your site within the last 24 months?	4	2	1
<u>C. Economic Aspect</u>				
1.	Does your company have a policy in place regarding business conduct and compliance?	2	0	
2.	Does this site adhere to ethical business conduct?	2	0	
3.	Does your company have long term financial management plan?	2	0	

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

4.	Is there a system in place to monitor the implementation of the management plan?	2	0	
<u>D. Environment Aspect</u>				
1.	Does your company have a formal environmental policy, which includes a commitment to legal compliance, continuous monitoring and improvements in environmental performance?	2	0	
2.	Does this site have an environmental management system in place?	2	0	
3.	Does your facility have work procedure to manage the use of restricted substances and chemicals?	2	0	
4.	Are the operations included in your scope of certification located near to the protected/ high conservation value areas (e.g. national park, biological reserve and water catchment area) as per state and national regulations?	2	0	
5.	Are there any endangered, rare and threatened species observed at the operation site or around it?	0	2	
5(a).	If yes, is there any effort to protect it?	2	0	
		No	Yes, internal audit	Yes, external audit
6.	Was an environmental audit been conducted at your site within the last 24 months?	4	2	1
Total Score:				

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

Additional questions for production sites:				
1.	Are agricultural operations in your scope of certification using soils with high potential for erosion?	2	0	
2.	If yes, Does the mitigation measures implemented and monitored?	2	0	

Calculation of your risk class


Score is 8 or below : Low Risk	Score between 9-14: Medium Risk	Score 15 and above: High Risk
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Guidance: This risk class calculated by the operator is a self-estimation and gives an indication of the conditions in which you are operating and the required efforts to bring your operations to compliance with MSPO Standard. A high risk class means that the conditions of your operations are more challenging.

The certification body defines the risk classification of the operator which impact the audit duration and the sample size (if applicable).

Table 1: Category of Risk

<u>Risk</u>	<u>Factor</u>
Low	- Recognized sustainable certification scheme
Medium	- MPOB Code of Practice certification - ISO 9001:2008 - QMS/EMS/OSHA - GMP - Food Safety Management System - Documentation/SOP
High	- No management & Sustainable system - No Documentation - Adjacent High Conservation, Biodiversity area e.g Wetland, Forest, and etc.

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

Annex II – MSPO Audit Duration

1. Introduction

This annex provides guidance on the amount of time required by the Certification Body (CB) for assessing operators, by indicating the on-site audit durations for stage 1 audit, stage 2 audit, surveillance audit and recertification audit.

2. On-site Audit Duration

- The audit durations identified in this document are appropriate to the size of the oil palm premises (OPP), accessibility and number of audit sites within the premises, where oil palm operations are conducted.
- Table 2 shows the recommended minimum audit duration, which includes the opening meeting, site auditing, interviews, document verification, report writing and closing meeting and exclude the time needed for planning, preparation and travel.
- The audit duration does not allow for auditing oil palm management activities or systems outside the OPP. Where there is such a need, the audit duration should be increased accordingly.
- Table 2 has been developed to provide sufficient time under normal circumstances to adequately carry out auditing of OPP against Malaysian Sustainable Palm Oil (MSPO) Certification System. However, time allocated to the various locations of complex audit must be documented to justify the allocated audit durations.
- Audit duration is calculated on the basis of 8 hours per day. Audit working days will be calculated to the nearest full or half day.




 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

Table 2: Recommended minimum on-site audit durations (man-days) for stage 1 and stage 2 audits

<i>Individual Certification</i>					
Entity	Factors	Man-days			
		Stage 1	Stage 2	Surveillance	Recertification
Mill	<ul style="list-style-type: none"> - Environment (EQA) - Best practices (MPOB CoP) - Safety & health (OSHA) - Traceability 	1 - 2	*2 – 4	1-3	2-6
Plantation	<ul style="list-style-type: none"> - Environment , Biodiversity (P5) - Size - Best practices - Safety & health (OSHA) - Social 	2	*2 – 4	2	2-6
Independent Smallholder	<ul style="list-style-type: none"> - Environment , Biodiversity (P5) - Size - Best practices - Safety & health (OSHA) - Social 	1	*1-2	1	1-3

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

Group Certification					
Entity	Factors	Man-days			
		Stage 1	Stage 2	Surveillance	Recertification
Smallholder group (eg. SPOC, Koperasi)	<ul style="list-style-type: none"> - No. of members - Size - Location and distribution - Environment , Biodiversity (P5) - Best practices - Safety & health (OSHA) - Social 	min 2	*min 4	2	4
Organised smallholder	<ul style="list-style-type: none"> - Environment , Biodiversity (P5) - Size - Location and distribution - Best practices - Safety & health (OSHA) - Social 	2	*min 4	2	4
Mill and supply base	<ul style="list-style-type: none"> - No. of members - Size - Location and distribution - Environment , Biodiversity (P5) - Best practices 	2 - 4	*min 4	2	4

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0


	- Safety & health (OSHA)				
	Social				

***subject to stage 1 outcome**

***determination number of man-days for stage 1 and 2 is based on pilot audit conducted**

Note:

- Number of man-days may be reduced or increased with justification, but the minimum man-days shall be adhered. For example for premises which have well established management systems man-days may be reduced and for the premises with immature management systems then man-days may be increased. The reduction and the addition of man-days should also take into consideration of change in risk factors, for example, if the operators have successfully managed or mitigated a previously high risk to be medium or low risk. The audit team may use external technical experts as necessary, however the audit days involves the technical expert shall not counted as audit days required.

 M P O B	MALAYSIAN SUSTAINABLE PALM OIL (MSPO) SCHEME	Doc. No.:	MPOB/MSPO/RMP/06
		Eff. Date:	19 Nov 2013
	Risk Management	Issue No.:	1
		Rev. No.:	0

Annex III – Formula in Calculating Sample Size

For group certification, the certification body shall select group members to be audited before conducting Stage II audit based on random sampling of [risk factor] \sqrt{n} . The sample size is determined by the following formula:

$$S = r\sqrt{n}$$

Where:

S= Sample size

r=risk factor

n= number/size of the certification unit.

- The sample size and identification of the group members (should be obtained from Stage 1) should be included in the Stage 2 audit plan sent to the Group Manager.

Whereas the following risk factors apply as per stipulated in Risk Management document, no 4.3 (iv):

Low risk: risk factor 1.0

Medium risk: risk factor 1.5

High risk: risk factor 2.0

The lowest possible sample size number is one.

Based on the calculation above, the certification body shall use the sampling methodology described in IAF MD 1:2007 – IAF Mandatory Document for the Certification of Multiple Sites Based on Sampling (No 5.2, 5.2.3 and 5.2.6)