

PROVINCIAL TREASURY: RISK MANAGEMENT POLICY

1 INTRODUCTION

Section 38(1)(a)(i) of the PFMA states that: "The accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

1.1 OBJECTIVE:

The objective of this policy is to enhance the safety of departmental assets and interests over departmental operations and to provide a strong commitment towards the following values:

- Reporting obligations;
- Sound financial and risk management practices;
- Strengthen values, ethics and protocols;
- Ensure a control environment on transparency and open government practices;
- Employees to be risk and fraud aware;
- Provide sound creative and client driven practices;
- Ensure a mature framework of delegation, rewards and sanctions;
- Achieve and improve a cultural change in government practices; and
- Consider all spheres of government practices and commitments.

1.2 POLICY STATEMENT

The risk management policies for the department has been drafted to give effect to section 38(1) (a) (i) of the PFMA and to ensure compliance thereto. The management of this department recognises that no department operates in a risk free environment, and as a result has developed this policy to demonstrate the way they will seek to mitigate or manage risks and monitor progress on control activities. It is the department's risk management philosophy to encourage people to pursue business opportunities that align with the department's risk appetite.

PROVINCIAL TREASURY

COMPILED BY: SECRETARIAT RISK MANAGEMENT

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1.3 BACKGROUND

Risk management is a process, effected by an entity's Accounting Officer, management and other personnel, applied in strategy setting and across PGWC, designed to identify potential events that may affect the entity, and manage risks to be within its appetite, to provide reasonable assurance regarding the achievement of the entity's objectives.

Risk management requires looking across all aspects of an organisation to better manage risk. Organisations that manage risk organisation-wide have a greater likelihood of achieving their objectives and desired results. Effective risk management minimises losses and negative outcomes and identifies opportunities to improve services to stakeholders and the public at large.

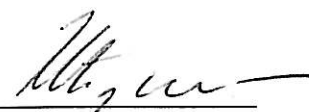
Application of the PGWC Risk Management Framework is designed to strengthen management practices, decision-making and priority setting to better respond to the public's needs. Moreover, practicing integrated risk management is expected to support the desired cultural shift to a risk-smart workforce and environment.

1.4 DEFINING RISK

A risk can be defined as ***“the threat than an event or action will adversely affect an organisation's ability to achieve its objectives and to execute its strategies successfully.”***

Risks can be viewed from three distinct perspectives:

- Risk as an opportunity;
- Risk as an uncertainty; or
- Risk as a hazard.


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Risk as an opportunity Viewing risk from the opportunity perspective recognises the inherent relationship between risk and return. Managing risk as an opportunity necessitates actions being taken by business managers to achieve positive gains. Opportunity analysis creates insights that may be used by business managers to increase the likelihood of success, and decrease the likelihood of failure.

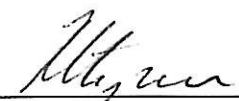
Risk as an uncertainty When considering risks from this perspective, business units must determine how they can be proactive in preventing uncertain future events from having a negative impact. The management of uncertainty seeks to ensure that a business unit's actual performance falls within a defined range. The management of uncertainty risk is proactive – one must anticipate the impact of change and establish controls/processes designed to mitigate its effect on the operations of the business unit.

Risk as a hazard Risks may be viewed as the possibility of a negative event taking place, or the fact that the negative event has taken place. Such potential negative events include financial loss, fraud, theft and damage to assets.

1.5 TYPES OF RISKS

Strategic Risks

Strategic objectives are high-level goals, aligned with and supporting the entity's mission/vision. Strategic objectives reflect management's choice as to how the entity will seek to create value for its stakeholders.


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Strategic risks are those events which could have a negative affect on the achievement of the Department's strategic objectives.

Operational Risks

Operational objectives pertain to the effectiveness and efficiency of the entity's operations, including performance and profitability goals and safeguarding resources against loss. They vary based on management's choices about structure and performance.

Events that may affect the achievement of the directorates' operational objectives are referred to as operational risks Or exposure of the department to potential losses, resulting from shortcomings and/ or failures in the execution of its operation. These losses may be caused by internal failures or shortcomings of people, process and system, as well as inability of people, processes and systems to cope with the adverse effects of external factors.

2. ROLES AND RESPONSIBILITIES

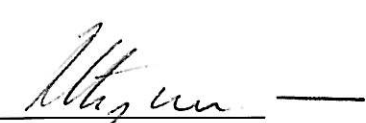
2.1 Accounting Officer

The Accounting Officer is ultimately responsible for and should assume "ownership" of risk management.

In terms of Section 38(1) (a) (i) of the PFMA, the accounting officer is responsible for effective, efficient and transparent systems of financial and risk management and internal control.

In terms of National Treasury Regulations 3.2.1: "The Accounting Officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution.

It is important that the Accounting Officer sets the right tone for risk management in the department. Although all staff will be aware of the need to prevent loss and to safeguard stakeholders' interests, they may not be quite so clear about the department standpoint on risk.


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2.2 Management

Managers convert strategy into operations, identify and assess risks, and effect risk responses. They are directly responsible for managing the risks including the identification of controls pertinent to the section under his/her control commensurate with the delegations set out in paragraph 5.1 of this policy.

- Management is responsible for the identification of risks as they pertain to their Business Units. These risks will be identified during the Risk Assessment workshops, which will be facilitated by the Risk Management unit, at least once in every 2 years.
- Evaluation and assessment of the impact and likelihood of the identified risks.
- Ownership of risks
- Ensuring that monitoring mechanisms are in place to ensure controls operate as intended.
- Control Self Assessment

2.3 CFO & Risk Management Unit

- Formulate risk management policy/procedures on behalf of Accounting Officers.
- Provide support tools/procedures to management.
- Identify key risks and developing common risk language.
- Plays a facilitating and monitoring role in the risk management process
- Serve as a reporting channel amongst the Risk Management role players.

2.4 OTHER ROLE PLAYERS RESPONSIBLE FOR THE OVERSIGHT ROLE WITHIN THE PROVINCE

Enterprise Risk Management and Governance Systems

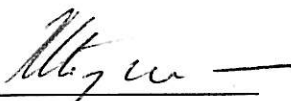
- Plays an oversight role in the risk management process within provincial government.
- Develops and implements risk management methodologies and frameworks within the provincial government and provides the training on these tools.

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- Consolidate inherent risk assessments, build a risk profile for the Provincial Government as a whole and ensure the development of response strategies to mitigate transversal risk.
- Provision of transversal risk management software and maintenance of data platform for the Provincial Government.

Internal Audit

Provide independent assurance services on the controls implemented to mitigate risks, the risk management and governance processes.

External Audit

Provision of a unique, independent and objective view that can contribute to the department's achievement of its financial reporting objectives, as well as other objectives

Audit Committee

Provide an oversight role in the Department's risk management process.

2.5 The Fraud and Risk Management Committee (FARMCO)

Provincial Treasury has established a Fraud and Risk Management Committee and it comprise of the following representatives:

- Head: Governance and Asset Management
- Chief Director: Financial Governance
- Senior Manager: Corporate Governance
- Head: Fiscal and Economic Services
- Head: Public Policy Services
- Chief Financial Officer: Financial Management
- Secretariat: Risk Management


The Chairperson of FARMCO will be the Head: Governance and Asset Management in terms of reference of the Committee are attached as Annexure A

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a) This Committee will foster a culture within the Department that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the department. It will reinforce management's control consciousness and make appropriate recommendations to management on all significant matters relating to the department's risk strategy and policies. It evaluates the basis on which the Department determines the overall risk tolerance and the risk appetite for the most significant risk taking activities and it reviews the Department's integrated portfolio risk management activities.

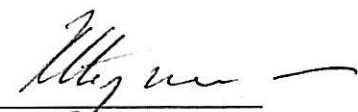
b) These risk committee members must conduct reviews over the identified risks which should include the risks of fraud faced by the department. These reviews should also include the trend analysis, progress and performance over time. This risk committee will need to assess the **Risk Appetite** of the organisation (the level of risk the organisation is willing to accept). It should then begin the process of understanding and assessing the risks, prioritising and developing a strategy to deal with the risks identified. The risk committee should be responsible for reviewing systems and procedures, identifying and assessing the risks and introducing the controls that are best suited to the Provincial Treasury.

2.6 Risk Committee Secretariat

The sub-directorate Risk Management will be responsible to function as the secretariat of the risk committee during sittings to ensure that proper minutes are taken; decisions and treatment options surrounding the significant risks and the reasons towards such decisions are properly recorded and communicated to the affected stakeholders.

2.7 Other Staff

All staff is responsible for carrying out the system of financial and risk management for the Department.


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3. WHY RISK MANAGEMENT SHOULD BE PRACTISED

3.1 We recognise that no Department operates in a risk-free environment, and practicing risk management does not create such an environment. Rather, the risk management process enables management to operate more effectively in environments filled with risks.

Effective risk management provides enhanced capability to:

- Align risk appetite and strategy
- Link growth, risk and return
- Enhance risk response decisions
- Minimise operational surprises and losses
- Identify and manage cross-PGWC risks
- Provide integrated responses to multiple risks
- Seize opportunities
- Rationalise capital

(Further information on the above points can be obtained in Chapter 2 of the PGWC Risk Management Framework.)

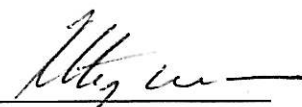
Risk management helps our Department achieve its performance and profitability targets and prevent loss of resources. It helps ensure effective reporting. And it helps ensure that our Department complies with laws and regulations, avoiding damage to its reputation and other consequences. In sum, it helps our Department get to where it wants to go and avoid pitfalls and surprises along the way.

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3.2 Indicators of effective risk management

Reduction or elimination of (example):

- Audit findings
- Negative publicity
- Wasteful expenditure
- Stakeholder dissatisfaction
- Loss of resources

Strengthened value system (e.g. less fraud and corruption)

Overall improved Departmental performance and service delivery

Ensuring of compliance to laws and regulations

Helps to maintain a good reputation


4. THE RISK MANAGEMENT PROCESS

4.1 Internal Environment

Internal environment encompasses the tone of the organisation, influencing the risk consciousness of its people, and is the foundation of all other components of risk management, providing discipline and structure. Internal environment factors include the department's risk management philosophy; its risk appetite and risk culture; the integrity, ethical values and competence of its people; management's philosophy and operating style; and the way management assigns authority and responsibility, and organises and develops its people.

4.1.1 Risk Management Philosophy

An enterprise risk management component has been established to assist the department with the facilitation of risk management processes and monitoring the implementation of controls, as well as assisting management with setting the tone of a risk aware culture within the organisation. This department risk management philosophy places responsibility on all employees to recognise the risks their department is exposed to; and to effectively manage those risks. It also places responsibility on management's beliefs about risk management and how they choose to deal with risks reflecting the value the department seeks from enterprise risk management and influences how the risk management process is applied.


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Management's risk management philosophy should be reflected in its policy statements and other communications. Importantly, management reinforces the philosophy not only with words but with everyday actions as well.

4.1.2 Risk Appetite

Risk appetite is the amount of risk the Department is willing to accept in pursuit of its objectives. Management should consider its risk appetite as it aligns the Department, people and processes, and designs infrastructure necessary to effectively respond to and monitor risks. Department's often consider risk appetite qualitative, with such categories as high, moderate or low.

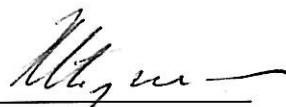
This department takes cognisance of the risks to which it is exposed, but because it is a public service and works with public funds, the department's risk appetite is low. Any residual risk that is above the department's risk appetite, acceptance thereof can only be signed off by the Accounting Officer and not the risk owner. The risk owner can only accept residual risks that are below the department's risk appetite. Risk appetite is determined per risk and not per process.

4.1.3 Risk Tolerance

Risk tolerance defines the amount of risk the department is willing to tolerate, in relation to its risk appetite. It is determined on an objective level and not on the risk or process level. The higher the risk appetite, the broader the risk tolerance. The risk appetite influences how wide/broad the risk tolerance should be.

4.1.4 Risk culture

Risk culture is the set of shared values and practices that characterise how the department deals with risk in its daily activities. It is aimed at preventing mushrooming risk responses that may even be contradictory. Hence management should standardise these practices and ensure that they ultimately enhance the achievement of the set strategic goals of the departments.


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4.2 Objective Setting

There is a direct relationship between objectives, which are what an entity strives to achieve and the risk management components, which represent what is needed to achieve them.

Every department faces a variety of risks from external and internal sources, and a precondition to effective event identification, risk assessment and risk response is establishment of objectives, linked at different levels and internally consistent. Objectives are set at the strategic level, establishing a basis for operations, reporting and compliance objectives. Objectives are aligned with the department's risk appetite, which drives risk tolerance levels for the department's activities.

4.3 Event Identification

Event identification is the process of recognising that a particular risk exists. It also includes the gathering of information in order to understand a risk and trying to define its characteristics.

As part of event identification, management recognise that uncertainties exist, but do not know when an even may occur, or its outcome should it occur. Events with a potentially negative impact represent risks which require management's assessment and response. Events with a potentially positive impact may offset negative impacts or represent opportunities. When identifying events, management considers the full scope of the organisation.

4.4 Risk Assessment

Risk assessment allows the department to consider the extent to which potential events might have an impact on achievement of objectives. Management should assess events from two perspectives, impact and likelihood. The positive and negative impacts of potential events should be examined individually or by category across the department. Potential negative events are assessed on both inherent and residual basis.

Inherent risk – the risk to an entity in the absence of any actions management might take to alter either the risk’s likelihood or impact.

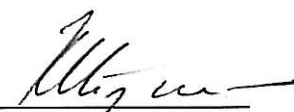
Residual risk – the risk that remains after management responds to risk.

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RISK RATING CRITERIA

OPERATIONAL RISK SCORING TABLES

1. CONSEQUENCE / IMPACT

SCORE	GRADING	Financial	Service Delivery	Reputation & Image	Employee Wellness	Legal/ Regularity/ Compliance
10	Catastrophic	Impacts of a financial nature and directly affects the departmental budget Loss of assets, adverse impact on annual revenues – Financial loss of 80 – 100% of budget	Impacts on the ability to provide maximum services to the stakeholders with existing resources Threatens ongoing existence of the component/sub-directorate (Total disruption of service rendered by component/ sub-directorate).	Impact is of a reputational nature stemming from bad publicity of the department Total loss of confidence within stakeholders. Sustained negative publicity or damage to reputation from a national, sector or community perspective – long term.	Impact stems from employees not being in the best mental, emotional and physical state to perform duties Multiple deaths more than 20% unit capacity. Destruction of the Department facility.	Impact is on the ability to comply with Acts, laws, regulations or contracts as well as with departmental policy and procedure Total shut down of the component or external intervention required
9	Critical	Loss of assets, adverse impact on annual revenues - Financial loss of 70 – 79% of budget	Permanent loss of critical information, substantial disruption to component or external intervention extending over 6 months or more (Total disruption of service rendered by component/ sub-directorate). Major KRA's not achieved.	Critical breakdown in key relationship with primary stakeholders	Multiple deaths less than 20% unit capacity. Temporary destruction of the Department.	

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SCORE	GRADING	Financial	Service Delivery	Reputation & Image	Employee Wellness	Legal/ Regularity/ Compliance
8	Severe/Major	Loss of assets, adverse impact on annual revenues - Financial loss of 60 – 69% of budget	Permanent loss of critical information, substantial disruption to component or external intervention extending over 3 to 6 months (Total disruption of service rendered by component/ sub-directorate). All major KRA's not achieved.	Widespread negative reporting in media. Leads to a high-level independent investigation with adverse findings. Short term breakdown in key relationship with stakeholders	Death. Entrenched morale problems. Inability to recruit employees with necessary skills. Employee walkout.	
7	Significant	Loss of assets, adverse impact on annual revenues - Financial loss of 50 – 59% of budget	Considerable remedial effort required with widespread disruption to the component extending for period up to 3 months More than 50% of major KRA's will not be achieved.	Short term breakdown in key relationship with stakeholders. Widespread negative reporting in media. Premier or Ministerial involvement. Leads to a preliminary investigation with limited findings.	Serious permanent injury – inability to return to work. Ongoing widespread morale issues. Extreme employee turnover.	Serious failure to comply with legal or regulatory requirements that may result in legal action taken against department due to non-compliance with Laws, Acts, regulations or Contracts
6	Moderate	Loss of assets, adverse impact on annual revenues - Financial loss of 40 – 49 % of budget	Considerable remedial effort required with limited disruption to the component extending for period 3 months or more Less than 50% of major KRA's will not be achieved.	Limited breakdown in key relationship with stakeholders. Widespread negative reporting in media. Premier or Ministerial involvement.	Serious permanent injury but able to return to work. Ongoing widespread morale issues. High employee turnover.	

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SCORE	GRADING	Financial	Service Delivery	Reputation & Image	Employee Wellness	Legal/ Regularity/ Compliance
5	Marginal	Loss of assets, adverse impact on annual revenues – Financial loss of 30 – 39% of budget	Considerable remedial effort required with limited disruption to the component extending for period of less than 3 months Some KRA's will not be achieved.	Widespread negative reporting in media. Premier or Ministerial involvement. No breakdown in key relationship	Lost time iro temporary injury (incapacity leave). Local but lingering poor morale. Serious skills mix issues. Medium employee turnover.	
4	Immaterial	Loss of assets, adverse impact on annual revenues Financial loss of 20 – 29% of budget	Easily remedied, some impact on external stakeholders KRA's delayed.	Temporary negative impact on reputation. Media coverage in city/provincial level for less than a week	Lost time iro temporary injury (normal sick leave) Local but lingering poor morale. Skill mix issues.	Non-compliance with policy and procedures results in ineffective procedures that impact on the KRA's.
3	Minor	Loss of assets, adverse impact on annual revenues Financial loss of 10 – 19% of budget	Easily remedied, some impact on internal stakeholders KRA's delayed.	One off media coverage in city/provincial level only.	Lost time injury 2 days or less. Local but lingering poor morale. Minor skill mix issues.	

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SCORE	GRADING	Financial	Service Delivery	Reputation & Image	Employee Wellness	Legal/ Regularity/ Compliance
2	Insignificant	Insignificant loss of assets or insignificant adverse impact on annual revenues – Financial loss of 5 – 9% of budget	Small delay, internal inconvenience only. Can be remedied internally immediately	Once off media coverage in community circulation only.	Minor injury. Temporary poor morale within the component.	Slight deviation from prescripts. Can be remedied internally immediately.
1	Negligible	Insignificant loss of assets or insignificant adverse impact on annual revenues – Financial loss of 0 – 4% of budget	Internal inconvenience only. Can be remedied internally immediately	Customer complaint received	Minor injury Minor morale issues.	

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Likelihood		
Score	Grading	Description
10	Certain	Adverse event/opportunity will definitely occur.
9	Almost Certain	There is little doubt that the event will occur. History of occurrence internally and/or at similar institutions.
8	Probable	Highly likely that adverse event/opportunity will occur.
7	Expected	The adverse event/opportunity can be expected to occur.
6	Possible	It is more likely that adverse event/opportunity will occur than not.
5	Potential	There is a 50% probability of occurrence.
4	Occasional	Unlikely, but can reasonably be expected to occur.
3	Remote	Unlikely, but there is a slight possibility that the event will occur.
1-2	Improbable	Highly unlikely that adverse event/opportunity will occur.

4.4.1 How often should risk assessments be conducted?

Operational risk assessments workshops should be conducted at least once in two (2) years. Strategic risk assessment workshops should be conducted once in every five (5) years. However risk assessments (operational and strategic) at shorter intervals where practical are encouraged. Written approval to deviate must be obtained from the Accounting Officer if the Department fails to comply with this condition.

The controls implemented to mitigate risks should be regularly assessed, analysed and reviewed by the risk owner to evaluate if the control is still adequate to mitigate the risk, this must be monitored by the risk management unit.

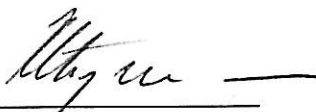
The level of the risk owner should be equivalent to that of the Director/Deputy-Director for operational risks; and Chief Director for strategic risks.

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4.4.2 Analysing Risks Identified

All risks will be categorised in terms of the standardised provincial categorisation commonly referred to as the risk universe as defined in Exhibit 7.2 of Chapter 7 of the PGWC Risk Management Framework.

4.5 Risk Response

Having assessed relevant risks, management determines how it will respond. Responses include risk avoidance, reduction, sharing and acceptance. In considering its response, management considers cost vs. benefit and selects a response that brings expected likelihood and impact within the desired risk tolerance

Identifying risk responses:

Avoidance: Action is taken to exit the activities giving rise to risk.

Reduction: Action is taken to reduce the likelihood or impact, or both.

Sharing: Action is taken to reduce the likelihood or impact by transferring or otherwise sharing a portion of the risk

Acceptance: Where a decision is taken not to address the risks, because of its minimal value, probability of occurrence or impact level to the organisation.

4.6 Control Activities

Control activities are the policies and procedures that help ensure that management's risk responses are carried out. They are an important part of the process by which the department strives to achieve its business objectives. Control activities occur throughout the organisation, at all levels and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, review of operating performances, security of assets and segregation of duties.

Types of control activities:

Preventive controls

Detective controls

Manual controls

Computer controls

Management controls

4.7 Information and communication

4.7.1 Information

Information is needed at all levels of an organisation to identify, assess and respond to risks and achieve business objectives. Pertinent information is identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.

The quality of information includes ascertaining whether:

- The content is appropriate – right level of detail?
- Information is timely – there when required?
- Information is current – latest version available?
- Information is accurate – data correct?
- Information is accessible – easy to obtain by those who need it?

4.7.2 Communication

Communication is inherent in information systems. Effective communication occurs flowing down, across and up the organisation. All personnel should receive a clear message from top management that risk management responsibilities must be taken seriously. Management should provide communication that addresses behavioural expectations and the responsibilities of personnel. This will include a clear statement of the department's risk management philosophy and a clear delegation of authority. Communication about processes and procedures should align with the desired risk culture.

4.8 Monitoring

Risks that have been identified, assessed and treated must be subject to continuous monitoring and review at least annually in order to ensure that the results of the risk treatment approach are and remain acceptable. Monitoring also results in the risk management cycle being repeated periodically.

Monitoring the risk management process can be effected through ongoing activities or by separate evaluations.

All abovementioned eight components must be functioning efficiently and effectively when performing Risk Management processes.

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4.8.1 Ongoing activities

Ongoing activities include regular management and supervisory activities, variance analysis, comparisons, reconciliations and other routine actions.

Our Internal Control component within the Department plays an integral part in the monitoring process. Internal control will test the effectiveness of controls implemented to mitigate risks and report their findings and make recommendations to management by means of ongoing internal control inspections.

The Enterprise Risk Management components develop, implement and advise on risk management systems, facilitate risks identification, the identification of control mitigating risks and control improvement and quality assures all risk management activities within the Department.

Management can also test controls which they implemented by performing control self assessment tests to evaluate the effectiveness of controls implemented to mitigate risks.

4.8.2 Separate Evaluations

Separate evaluations performed by the Internal Auditors and/or Auditor-General will provide an independent review on the effectiveness of controls implemented to mitigate risks.

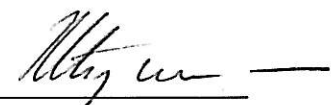
5. MANAGING THE RISKS IDENTIFIED

5.1 Delegating Risks to Appropriate Levels

Careful consideration should be given to the appropriate levels to which the management of the types of risks should be delegated. Delegating risks identified and the management thereof to a responsible manager/s will ensure accountability, responsibility and compliance to the risk management process.

Strategic risk - Should be delegated to the relevant Deputy Director General and/or Chief Director (Program Manager)

Operational risk - Should be delegated to the Director (Sub-Program Manager) and/or Deputy Director, depending on the level of objectives


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6. COMMUNICATING RESULTS

The Chief Risk Officer via the CFO must compile and present a consolidated risk profile of the Department to the Accounting Officer and the Audit Committee bi-annually.

Results of risk assessments should be communicated to the risk owners on an ongoing basis (minimum quarterly).

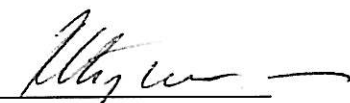
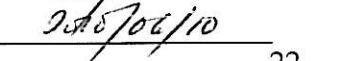
All reports used by management for planning, decision making and any other purpose, must be made available to the Chief Financial Officer for the effective management of the Risk Management process, if so requested.

7. CREATING AWARENESS OF THE POLICY

It is the responsibility of the supervisor to ensure that all employees under their control are made aware of the existence, implementation and adherence to the Risk Management Policy.

8. ADMINISTRATION

The custodian of this Policy is the Chief Financial Officer of the Department of Provincial Treasury, who is supported in the implementation by the Fraud and Risk Management Committee (FARMCO).

9. ADOPTION AND IMPLEMENTATION OF THE RISK MANAGEMENT POLICY




A GILDENHUIS

CHIEF FINANCIAL OFFICER

DATE: 10/06/2010

This policy supersedes the existing risk management policy that was approved by the Head of Department on^{10/06}..... 2010. It is adopted and implemented with effect from^{01/06}..... 2010.



DR JC STEGMANN

ACCOUNTING OFFICER

DATE: 2010/06/10

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