

POLICY ON RISK MANAGEMENT

1. PREAMBLE

In the past, management of risk in the public service has not received adequate attention. This originates from the fact that previous government administration was based on a rule-bound approach, a hierarchical system of management and weak accountability. Now, however, with the introduction of the Public Finance Management Act (PFMA), Act 1 of 1999, the foundation has been laid for a more effective corporate governance framework as well as an accountable financial management system for the public service. The Act has also established the legal framework for risk management in the public service.

National Treasury has with the assistance of the Public Services Commission developed a risk management guideline document, designed to provide a robust methodology for risk assessment together with practical strategies to assist departments to implement change.

Risk management processes and responsibilities are incorporated in the list of responsibilities allocated to Accounting Officers and Audit Committees. However, these responsibilities are extended to all Managers in terms of the provisions of the PFMA. It establishes accountability for Risk Management at all levels of management and thus becomes everybody's responsibility. This should be seen as a medium term vision and to be successful it must assist in organizational and individual behavioral change and be seen to be of benefit to the individual as well as the organization.

2. DEFINITIONS

Risk Management: the overall process of managing risk including risk identification, risk analysis, risk reduction, risk transfer, risk avoidance, and contingency planning.

Risk: the uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood

Impact: an assessment of the adverse effect of the risk occur Commonly used in risk analysis as one part of the assessment of a risk the other being Likelihood.

Likelihood: Likelihood is an assessment of the probability of a risk occurring. Used in Risk Analysis as one part of the assessment of a risk, the other being Impact.

Risk tolerance levels: the level of risk exposure that management is prepared to tolerate.

3. PURPOSE

The aim of this policy is not to eliminate risk, rather to manage the risks involved in all the departmental activities to maximise opportunities and minimise adversity. Effective risk management requires: A strategic focus, Forward thinking and active approaches, balance between the cost of managing risk and the anticipated benefits, and Contingency planning in the event that critical threats are realised.

4. AUTHORIZATION

Risk Management practice has been supported by the Public Finance Management Act which stipulates in Section 38 that the accounting officer must maintain effective, efficient and transparent systems of financial and risk management and internal control.

The extension of the general responsibilities, in terms of Section 45 of the PFMA, to all managers is a cornerstone in the institutionalization of risk management in the public service.

The roles and responsibilities for the implementation of a Risk Management strategy is contained in the treasury regulations published in terms of the PFMA. Section 3.2 of the regulations revolves around risk management

5. REGULATORY FRAMEWORK

5.1 Public Finance Management Act, 1999 (Section 45)

5.2 Treasury Regulations (Section 3.2)

5.3 King report on Corporate Governance 2002

5.4 Integrated Risk Management Framework.

5.5 COSO report on Enterprise Risk Management, published as a draft in July 2003.

6. POLICY FRAMEWORK

Risk Management is a tool that is forward looking, anticipating any potential impediment/risks to physical and human assets in reaching the organizational objectives of the department. It focuses management on understanding the nature of the risks and ensures that management take steps to mitigate the potential negative consequences. It allows management to evaluate, prioritize and address the critical risks and channel resources to these risks, ultimately improving the utilization of resources, addressing the most important risks. Risk Management assists management to take the right decisions in an uncertain environment. Focusing of risk analysis and responses improves the quality of strategic plans.

A major component of risk management is the establishment of a fraud prevention plan. Managing the risk of fraud and corruption entails the development, implementation, and maintenance of cost effective internal controls. It raises awareness of the risks inherent to the activities that are being managed and for which managers are held accountable and fosters and encourages a culture of accountability and empowered decision-making instead of a culture of no tolerance for mistakes. By prioritizing fraud risks, individuals in positions where the opportunity for fraud and corruption is high can be better assisted in managing those risks.

Risk management enhances the capability of a department to identify potential risks, assess these risks, and manage them, thereby reducing the occurrence of surprises and related costs.

7. SCOPE OF APPLICATION

Risk management is a formal step-by-step process that must be applied at all levels of the department. Risk management is a process, not an event and requires the department to pay closer attention to the developments both in the external and control environments. Top management's strategic direction and commitment are also regarded as very important if risk management processes are to be successful and effective.

Management is expected to lead the process and ensure that everybody within the organisation understands the benefits risk management offers for the department. This represents the challenge to management to set the tone to establish a supportive internal environment. Involvement of all personnel and all levels of management ensures that risk management activities are applied consistently across all levels within the organisation. Again, the philosophy that everybody is a risk manager ensures that everybody is involved in risk management process.

The whole system is facilitated by effective communication between all levels. Without it, employees are less likely to know and understand the purpose and importance of their activities in the whole risk management process and in contributing to the overall objectives of the organisation. A clear definition and communication of the concept of risk is pivotal to the success of risk management programmes. Defining guidelines, methods, frequency of reporting, clear lines of reporting and accountability make a significant contribution to a well-informed and motivated organisational team.

8. PROCEDURE AND AMENDMENT OF THE POLICY

The Departmental Risk Management Committee may review the policy on an annual basis and make amendments if there is a need.

9. MONITORING, EVALUATING AND REPORTING.

The department through its delegation shall monitor and evaluate the implementation and the reporting to the Head of Department on an annual basis.

APPROVED/NOT APPROVED

MR. S. NGUBANE
ACTING HEAD OF DEPARTMENT
DATE: _____