



# DEPARTMENT OF CO-OPERATIVE GOVERNANCE, HUMAN SETTLEMENTS AND TRADITIONAL AFFAIRS

## RISK MANAGEMENT POLICY 2019-2022

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Reviewed by : Risk Management Committee  
Recommended by : Chairperson: RMC  
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Position : Head of Department

Signature :  
Date :

  
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## 1. INTRODUCTION

The Risk Management policy is a brief statement of the Department of Co-operative Governance, Human Settlements and Traditional Affairs' commitment to Risk Management.

It is important that the Accounting Officer set the right tone for Risk Management in the Department. Although all staff will be aware of the need to prevent loss and safeguarding stakeholders' interest, they may not be quite so clear about the Departments' standard point on risk.

The Risk Management Policy will outline the Department's commitment to protecting the department against adverse outcomes, which may impact negatively to service delivery. It will also confirm the Department's commitment to legal and regulatory compliance.

## 2. POLICY OBJECTIVES

- 2.1 To formalise and communicate a consistent approach to managing risk for all Departmental activities and to establish a reporting protocol.
- 2.2 To outline the manner, at which the Departmental risks are identified, assessed and where necessary treated and reported in a timely manner.
- 2.3 To clearly outline to all senior management and other parties their responsibilities and accountability regarding the management of risks within their areas of control.

## 3. POLICY STATEMENT

The Department considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk will provide an essential contribution towards the achievement of the Department's strategic and operational objectives.

The Department will review and monitor the implementation and effectiveness of the risk management processes, including the development of an appropriate risk management culture across the Department.

## 4. LEGISLATIVE MANDATE

The Public Finance Management Act (PFMA), Sec 38(1) a (i) requires that the Accounting Officer for the Department must ensure that a Department has and maintain effective, efficient and transparent systems of financial and risk management and internal control.

Treasury Regulations indicate that the Accounting Officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution.



## 5. CORPORATE GOVERNANCE GUIDELINES:

- 5.1 King IV Report Chapter 6 on Risk Management and Corporate Governance.
- 5.2 National Treasury Risk Management Framework.

## 6. KEY DEFINITIONS:

### **Risk**

The change of something happening that will have an impact on the achievement of Department of Co-operative Governance, Human Settlement and Traditional Affairs objectives, or “the threat that an event or action will adversely affect an organisation’s ability to achieve its objectives and to execute its strategies successfully. It is measured in terms of consequences and likelihood.

### **Risk can be viewed from three distinct perspectives:**

- Risk and opportunity
- Risk as an uncertainty
- Risk as a hazard

### **Strategic Risk**

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. Strategic Risks are those events, which would have a negative effect 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 Directorate’s operational objectives are referred to as operational risks or exposure of the Department to potential losses, resulting from shortcomings and/ failures in the execution of its operation. These losses may be caused by internal failures or shortcomings of people, process and system, as well inability of people, processes and systems to cope with the adverse effects of external factors.

### **Risk Assessment**

It is a systematic process to understand the nature of risk and determine the level of risk. Risk assessment steps aims to develop an understanding of the risk. It provides an input to decision on whether risk response is necessary and the most appropriate and cost effective strategies.





### **Risk Management Process**

The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysis and evaluation, treating, transferring and avoidance of risk, contingency planning, monitoring and communicating risks.

### **Inherent Risk**

The assessed level of raw or untreated risk; that is, the natural level of risk inherent in a process or activity without controls in place.

### **Residual Risk**

The amount of risk or danger associated with an action or event remaining after natural or inherent risks have been reduced by risk controls.

### **Risk Tolerance level**

The level or risk exposure that management / department is prepared to tolerate

## **7. SCOPE AND APPLICATION**

- 7.1 The realisation of the Strategic objectives depends on the Department's ability to take calculated risks in a way that does not jeopardise the direct interests of the Stakeholders. Sound management of risks will enable the Department to anticipate and to respond to changes in the service delivery environment, as well as taking informed decisions under conditions of uncertainty.
- 7.2 The principles continued in this policy will apply to all employees of the Department whether appointed on permanent or temporary/contract basis as well as officials enrolled in the internship/ learnership programs.
- 7.3 This policy will further be applied to all operational activities and significant activities (e.g. contractual agreement with external parties and goods and services. Taking into consideration external strategic risks arising from or related to other government departments and local government.
- 7.4 Since effective risk management is the responsibility of all officials in the department; it is vital importance that it be incorporated into Senior Managers' performance agreements as well as job descriptions of key personnel. This must be in line with the prescripts regulating performance agreements and Performance Management and Development System (EPMDS).





## **8. ROLES, RESPONSIBILITIES AND GOVERNANCE:**

Everyone in the Department has responsibility for Risk Management;

### **8.1.1 Executive authority**

- The PFMA defines the executive authority in Section 1 as the member of the Executive Council of the province who is accountable to the provincial legislature for that Department.
- The executive authority provides oversight with regard to risk management by:
  - Knowing the extent to which management has established effective risk management in the department.
  - Being aware of and concurring with the department's risk tolerance.
  - Being aware of the most significance risks facing the department and whether management is responding appropriately

### **8.1.2 Accounting Officer**

The Accounting Officer is ultimately responsible for and should assume "ownership" of risk management. More than any other individual, the Accounting Officer sets "tone at the top" that affect integrity and ethics and the Accounting Officer fulfils his duties by providing leadership and direction to Senior managers and reviews the way they manage the risks within their area of responsibility.

It is therefore imperative that among other things, accounting officer is responsible for:

- Ensuring that departmental risk management policy and strategies are developed.
- Ensuring that sound systems of risk management and internal controls are established and maintained.
- Seeking regular assurance that internal controls systems are effective in managing risks in accordance with the established departmental policies.

### **8.1.3 Senior Managers**

Senior Managers are accountable for the management of risks within areas under their control including the devolution of the risk management process to manager, assistant managers and other staff members.

The Departmental Management on the other hand is responsible but not only limited to the following:





- Integrating risk management into planning, monitoring and reporting processes and the daily management of programs and activities.
- Determining the Departmental acceptable risk levels and maintain the functional risk profile within such levels
- Creating a culture where risk management is encouraged and practiced.
- Annual and quarterly reporting on the status of the risk register, insofar as it impacts on their respective responsibilities, as part of the annual planning.
- Ongoing maintenance of the risk register insofar as it impacts on their respective responsibilities.

#### **8.1.4 Chief Risk Officer (CRO)**

The Chief Risk Officer has the following responsibilities:

- Facilitate and coordinate all Departmental risk management process
- Work with other managers in establishing and maintaining effective risk management in their areas of responsibilities
- To monitor progress and assisting other managers in reporting relevant risk information in vertical and horizontal levels within the department.
- Compiling reports to the Department risk management committee.

#### **8.1.5 Internal Auditors**

Internal auditors and risk management are two functions that are complementary; however, the following are identified as the roles Internal Audit should play with regard to risk management;

- Evaluating the effectiveness of risk management process.
- Evaluating the reporting of key risks and
- Reviewing the management of key risks and where possible, provide recommendations.
- Reviewing the appropriateness of the risk tolerance levels.
- Utilizing the results of the risk assessment to develop long terms and current year internal audit plan.

#### **8.1.6 All Employees**

- Applying risk management processes to their respective roles.
- Participating in risk identification and assessment process of their directorates.



- Report risks to management on a timely basis.
- Adhere to the code of conduct and other policies that encourages ethic and integrity.
- Implementation of risk responses to address the identified risks.

#### **8.1.7 External Parties**

External parties, for example, External auditors bring an independent and objective view, contributing directly through the financial statement audit and internal control examinations, and directly by providing additional information useful to management and the executive authority in carrying out their responsibilities. The auditor general also provides independent assurance on the effectiveness of the risk management activities. External parties, however, are not responsible for the Department risk management.

#### **8.1.8 Audit Committee**

The head of the Department will report to the Audit Committee of which its responsibilities are inter alia to:

- Review the risk profile and management action plans to address the risks.
- Review and recommend any risk disclosure in the annual financial statements.
- Provide regular feedback to the accounting Officer on the effectiveness of the risk management process implemented.
- Review and ensure that the internal audit plans are aligned to the risk profile of the department.

#### **8.1.9 Risk Management Committee**

The risk management committee reports to the Accounting Officer and will carry out its responsibilities as stipulated in the Risk Management Committee Charter

The following are key responsibilities of this committee:

- Review the risk management policy, strategy, and recommendation for approval by the Accounting Officer.
- Review the tolerance level and recommend for approval by the Accounting Officer.
- Review the Department's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register.
- Oversee the performance of the risk management function





## 9. RISK MANAGEMENT METHODOLOGY

The Department's risk management methodology is derived from Committee of Sponsoring Organisations of the Treadway Commission (COSO), which is the universally applied framework and it is recognised as the best practice methodology in both public and private sector. The department further incorporated Public Sector Risk Management Framework in its Risk Management practices, which also derived from the COSO framework.

### 9.1 Process of Risk Management

Department of Co-operative Governance, Human Settlement and Traditional Affairs will maintain procedures to provide with a systematic view of risks faced in the course of the Departmental activities. This will require the Department to take into consideration its internal environment which refers to:

**Internal Environment** - encompasses the tone of the organisation, influencing the risk consciousness of its people, and it 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 tolerance 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.

#### There following is a step by step process

**Objective Setting** – Objectives must exist before management can identify potential events affecting their achievements. Enterprise risk management ensures that Management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk tolerance. The Department's objectives set forth in four categories:

- Strategic- high level goals, aligned with and supporting its mission
- Operations- effective and efficient use of its resources
- Reporting- reliability of reporting and information
- Compliance- compliance with applicable laws and regulations

**Event identification**- This is the identification of what, why and the adverse events that can arise and which will have a negative impact on the achievement of objectives.

**Risk Assessment**- This is the determination of existing controls and the analysis of risks in terms of consequences and likelihood in the context of those controls. The analysis should consider the range of potential





consequences and how likely those consequences are to occur, and risks will also be assessed on an inherent and residual basis.

**Risk response-** The department is required to develop and implement specific risk management plans to reduce or eliminate the risks identified taking into consideration the cost benefit when formulating the mitigating strategies. The following risk responses will be applied depending on the nature of the risk:

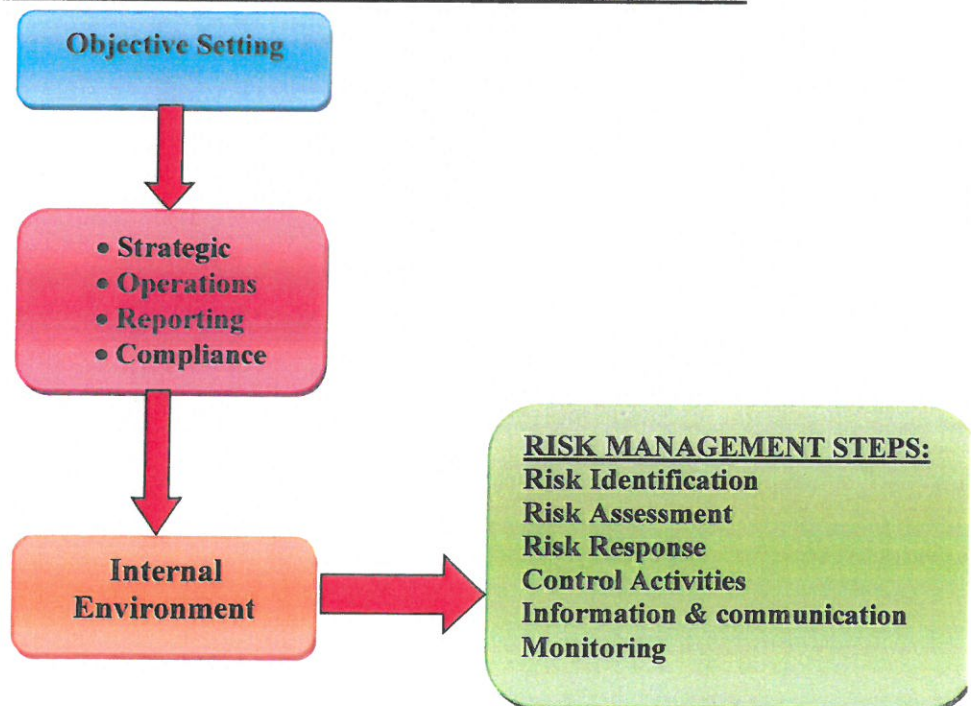
- Treat – improving or implementing the internal control system
- Avoid-choosing a different strategy or terminating activities that produces the risk
- Transfer – transferring the risk to another party e.g. outsourcing, contracting
- Accept- when the cost of treating the risk is higher than the impact of the risk in not achieving the objectives, leads to an acceptance of the risk.

**Control Activities-** Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.

**Information and Communication-** Appropriate communication and consultation with internal and external stakeholders should occur at each stage of the risk management process as well as on the process as a whole. Relevant information needs to be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.

**Monitor and Review-** This is the oversight and review management system and any changes that might affect it. Monitoring and reviewing occurs concurrently throughout the risk management process.

The below schematic representation summarise the above process







## 9.2 DEPARTMENTAL RISK TOLERANCE:

9.2.1 The Risk tolerance should be established by management and reviewed by the executive authority.

9.2.2 The Executive authority, the Accounting officer and management should encourages taking of controlled risks, the grasping of new opportunities and use of innovative approaches to further the interests of the department and achieve its objectives provided that the resultant exposures are within the Department's risk tolerances range.

## 9.3 Departmental Risk Assessment

9.3.1 Risk assessment allows a department to consider how potential events might affect the achievement of objectives. Management assesses events by analysing the likelihood and its impact.

9.3.2 The department will conduct the departmental risk assessment annually before the start of the financial year to ensure maximum mitigation thereof, however the risk register will be updated quarterly. The risk assessment exercise will be conducted as per the Departmental risk assessment rating guide outlined in this document.

9.3.3 Prior the identification and assessment or risks various strategic and compliance documents will be considered in order to make the exercise more beneficial and value adding.

9.3.4 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, the risk management unit must monitor this.

9.3.5 For risk assessment purposes the following model will be adopted as a guide to qualifying the parameters (Scoring system) of impact and likelihood of the risk to occur:

## 9.4 RATING GUIDE:

### 9.4.1 LIKELIHOOD

Likelihood rating guide		
Score	Assessment	Definition
1	Rare	The risk is conceivable but it's likely to occur in extreme circumstances
2	Unlikely	The risk occurs infrequently and is likely to occur within next 3 years
3	Moderate	There is an above average change that the risk will occur at least once in 3 years.
4	Likely	The risk could easily occur and is likely to occur at least once within the next 12 months
5	Common	The risk is already occurring, or is likely to occur more than once within the next 12 months.





## Impact rating guide

## 9.5 Assessment Results

Example: **likelihood score X Impact score =Risk rating**

### 9.5.1 RISK RATING

### 9.5.2 PERCEIVED CONTROL RATING

Quality service is our priority *Risk Management Policy*





## **10. MANAGING THE RISKS IDENTIFIED:**

- 10.1 Careful consideration should be given to the appropriate levels to which the management of the types of risk should be delegated. Delegating risks identified and the management thereof to a responsible manager will ensure accountability and compliance to the risks management process.
- 10.2 Strategic Risks – should be delegated to the Relevant Chief Director, where necessary the Head of Department will decide to manage the risk.
  - Operational Risks- should be delegated to the Director, Deputy Director or Assistant Director depending on the level of the objectives.
  - Transversal Risks- all the role players should be considered who will assist to manage the risks.

## **11. REPORTING:**

- 11.1 Risk owners will be required to report quarterly to the Chief Financial Officer/ Chief Risk Officer on progress relating to mitigation of risks related to their Chief Directorate or Directorates.
- 11.2 The reporting format designed by the Chief Risk Officer and agree upon risks owners will be used for the purpose of regular reporting to the Risk Management directorate to ensure implementation of risk mitigation action plans.
- 11.3 The Chief Risk Officer will present risk management report to the Risk Management Committee, Internal Audit Committee and Senior Management Team.

## **12. RISK AWARENESS:**

- 12.1 It is the responsibility of the supervisors to ensure that all officials under their control are made aware of the existence, implementation and adherence to the Policy.
- 12.2 The responsibility of the Risk Management Unit should be to create awareness on the overall Risk Management concept.

## **13. SEPARATE EVALUATION:**

The Internal Auditors/Auditor General will perform separate evaluations in order to provide an independent review on the effectiveness of controls implemented to mitigate risks.

## **14. IMPLEMENTATION:**

The policy will be implemented upon its approval and it will be communicated throughout the Department by means of circulars, departmental newsletters and departmental website.



## 15. POLICY REVIEW:

Review will be conducted on the policy every after two years to determine its impact in achieving the objectives it is set out to achieve as well as alignment to the process.

16.	Compiler: Chief Risk Officer GS Baardtman	Date: 28/05/2019	Sign: 
17.	Recommendation: RMC Chairperson: Mr. R. Rhoda	Date: 30/5/2019	Sign: 
18.	Approval: Head of Department BS Lenkoe	Date: 	Sign: 30/05/2019