



Department of Finance *Office of the MEC*

Isitho LeziThath

Umfundiso weFomali

Departemanto van Finansas

Ngobona Mithetho

PROVINCIAL TREASURY CIRCULAR 31 OF 2011

FOR INFORMATION:

THE PREMIER MPUMALANGA PROVINCE (MR DD MABUZA)

THE SPEAKER PROVINCIAL LEGISLATURE (MR SW LUBISI)

THE MEC FOR FINANCE (MS YN PHOSA)

THE MEC FOR COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR MB MASUKU)

THE MEC FOR AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (MS C MASHEGO-DLAMINI)

THE MEC FOR ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (MR N MOKOENA)

THE MEC FOR EDUCATION (MS MR MHAULE)

THE MEC FOR PUBLIC WORKS, ROADS & TRANSPORT (MS DG MAHLANGU)

THE MEC FOR SAFETY, SECURITY & LIAISON (MR V SHONGWE)

THE MEC FOR HEALTH AND SOCIAL DEVELOPMENT (DR RC MKASI)

THE MEC FOR CULTURE SPORTS AND RECREATION (MS S MANANA)

THE MEC FOR HUMAN SETTLEMENT (MR S MASANGO)

CHAIRPERSON: SELECT COMMITTEE ON PUBLIC ACCOUNTS (MS NS MTSWENI)

CHAIRPERSON: PORTFOLIO COMMITTEE: EDUCATION, SPORTS, ART AND CULTURE (MS NC MAMABOLO)

CHAIRPERSON: PORTFOLIO COMMITTEE: HEALTH AND SOCIAL SERVICES (MS P NGOBENI)

CHAIRPERSON: PORTFOLIO COMMITTEE: HUMAN SETTLEMENTS; COOPERATIVE

GOVERNANCE AND TRADITIONAL AFFAIRS (MR SPD SKHOSANA)

CHAIRPERSON: PORTFOLIO COMMITTEE: AGRICULTURE, RURAL DEVELOPMENT AND LAND

ADMINISTRATION; ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (MS RC MAHLOBOGOANE)

CHAIRPERSON: PORTFOLIO COMMITTEE: PUBLIC WORKS, ROADS AND TRANSPORT; SAFETY AND SECURITY (MR JL MAHLANGU)

CHAIRPERSON: PORTFOLIO COMMITTEE: LEGISLATURE OVERSIGHT; PREMIER'S OFFICE AND FINANCE (MR VV WINDVOEL)



MPUMALANGA
A Pioneering Spirit

RISK MANAGEMENT AS KEY EVALUATION SUB-CRITERIA

1. BACKGROUND

Management is accountable to the Accounting Officer / Authority for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities of the institution. As such Management should ensure that it is satisfied with the management of risk and prevent risk management from becoming a series of activities that are detached from the realities of the Institution's business. Risk management, when integrated into the decision making process, becomes a valuable strategic management tool for underpinning the efficacy of service delivery and value for money. Risk Management should be a standing agenda item in Management meetings.

2. RECOMMENDATION

It is recommended that Members of the Executive Council take note that the Provincial Management Committee approved that the management of risks be a key evaluation sub-criteria for all managers under the Core Management Criteria of Strategic Capability and Leadership and as such, all Accounting Officers must ensure that this resolution is implemented in the Departments they are responsible for.

3. DISCUSSION

3.1. HIGH LEVEL RESPONSIBILITY OF MANAGEMENT

To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies, tools and techniques.

Management is responsible for executing their responsibilities outlined in the risk management strategy and for integrating risk management into the operational routines. The risk management reports submitted by Management to the Risk Management Committee or Audit Committee include:

- Non-compliance risks with key laws and regulations;
- Fraud related risks;
- Risks associated with the breakdown in key internal controls;
- Review of business continuity and disaster recovery plans;
- New risks that emerged during the reporting period; and
- Significant changes in current risk or risks that materialized during the reporting period.

High level responsibilities of Management should include:

- executing their responsibilities as set out in the risk management strategy;
- empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- aligning the functional risk management methodologies and processes with the Institutional process;
- devoting personal attention to overseeing the management of key risks within their area of responsibility;
- maintaining a co-operative relationship with the Risk Management Unit and Risk Champion;
- providing risk management reports;
- presenting to the Risk Management and Audit Committees as requested;
- maintaining the proper functioning of the control environment within their area of responsibility;
- monitoring risk management within their area of responsibility;
- holding officials accountable for their specific risk management responsibilities.
- maintaining the functional risk profile within the institution's risk tolerance (ability to tolerate) and appetite (risk that it is willing to take);
- implementing the directives of the accounting officer / authority concerning risk management;
- prioritizing and ranking risks in their area of responsibility to focus responses and interventions on risks outside the institution's tolerance levels;
- benchmarking risk and risk mitigation activities;
- assessing the effectiveness of risk management within area of responsibility; and
- developing and implementing a fraud risk response plan.

3.2. EVALUATION

Everyone in the Institution has a part to play in achieving and sustaining a vibrant system of risk management and to that extent should function within a framework of responsibilities and performance indicators. Evaluation of Management's effectiveness in risk management is vital to maximize the value created through risk management practices.

Clear objectives and key performance indicators should be set for the Management in respect of risk management and included in the performance agreements of Management. These indicators should be able to measure the Management's effectiveness in the Institution's risk management in contributing to the Institution's goals and objectives. **The Accounting Officer / Authority should evaluate the performance of Management through the following and other relevant indicators:**


- business unit performance against key indicators, including comparison of year-on year performance;
- implementation of risk management action plans;

- co-operation with the Risk Management Unit, Risk Management Committee, Risk Champion and relevant stakeholders involved in risk management;
- quality and timeliness of risk identification, assessment and reporting;
- proactive identification of new and emerging risks;
- absence of surprises;
- year-on-year reduction in adverse incidents and realised losses;
- elimination of unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure;
- reduction in fraud;
- progress in securing improved Internal Audit and Auditor-General outcomes in regularity and performance audits;
- implementation of credible risk management structures within their business unit;
- service delivery performance and improvement;
- improvement in efficiency ratios for service delivery; and
- actual effectiveness of controls instituted.

The Generic Core Management Criteria (CMC) as provided by the Department of Public Service and Administration, include the management and calculation of risks as one of the standards for "fully effective" performance under CMC 1: Strategic capability and leadership.

In order for the Province to move towards clean audit reports, all organisations must manage their risks effectively and efficiently as a contributing factor to good governance. The only way for this to be achieved, CMC 1: Strategic capability and leadership must be included in all managers' performance agreements / contracts, with specific emphasis on the management of risks.

Regards,



 MRS. YN PHOSA (MPL)
 MEC FOR FINANCE
 DATE: 15-09/2011

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DATE: 9/10/2011