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DEPARTMENT OF ENVIRONMENT AND NATURE CONSERVATION

Risk Management Strategy
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Financial Inspectorate Unit
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A PROSPEROUS AND EQUITABLE SOCIETY LIVING IN HARMONY WITH OUR NATURAL RESOURCES

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1. CONCEPTUAL BACKGROUND

What is Risk Management

Risk management is defined as follows:

Risk management is a continuous, proactive and systematic process, effected by a department's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the department, designed to identify potential events that may affect the department, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of department objectives.

The underlying premise of risk management is that every governmental body exists to provide value for its stakeholders. Such value is based on the quality of service delivery to the citizens. All departments face uncertainty, and the challenge for management is to determine how much **uncertainty** the department is prepared to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance **value**. The strategy provides a basis for management to effectively deal with uncertainty and associated risk and opportunity and thereby enhance its capacity to build value.

The risk management process should be integrated into existing decision-making structures, the following are processes which should be considered:

- Aligning risk management with objectives at all levels of the department;
- Introducing risk management components into existing strategic planning and operational practices;
- Communicating departmental directions on an acceptable level of risk;
- Including risk management as part of employees' performance appraisals; and
- Continuously improving control and accountability systems and processes to take into account risk management and its results.

Legislative Framework

The legislations that dictate this strategy and risk management process is the:

Public Finance Management Act OF 1999: - Section 38

The accounting officer…has and maintains:

- i) Effective, efficient and transparent systems of financial and risk management and internal control; and
- ii) A system of internal audit under the control and direction of an audit committee…"

Treasury Regulations:- Section 3.2.1

The accounting officer must ensure that **a risk assessment is conducted regularly** to identify emerging risks of the institution. **A risk management strategy**, which must include a fraud prevention plan, must be used to direct internal audit effort and priority, and to determine the skills required of managers and staff to improve controls and to manage these risks. The strategy must be clearly communicated to all officials to ensure that the risk management strategy is incorporated into the language and culture of the institution.

King II Report on Corporate Governance assigns, in chapter 3 from 1 to 3, the responsibility of the Chief Executive Officer, which is as follows:

- Develop and recommend to the Board a long-term strategy and vision for the company that will generate satisfactory levels of shareholders/stakeholders value and positive, reciprocal relations with relevant shareholders/stakeholders.

- Develop and recommend to the Board, the annual business plans and budgets that support the company's long term strategy;

- Strive consistently to achieve the company's financial and operating goals and objectives, and ensure that the day-to-day business affairs of the company are appropriately monitored and managed;

The CEO should also maintain a positive and ethical work climate that is conducive to attracting, retaining and motivating a diverse group of top-quality employees at all levels of the company. In addition, the CEO is expected to foster a corporate culture that promotes ethical practices, encourages individual integrity, and fulfils social responsibility objectives and imperatives.

The Board is responsible for the management, including the safeguarding, of the assets and the management of the liabilities within their official's area of responsibility."

King II report provides a framework of details on controls appropriate for management of assets, revenue, expenditure, and liabilities. The controls themselves are meant to implement the good corporate governance.

2. POLICY STATEMENT AND APPLICATION SCOPE

This Risk Management Strategy is a fundamental mechanism which can be utilized to assist the department in managing and identifying risks facing the department.

Benefits of Risk Management

The department does not operate in a risk-free environment, and the risk management process does not create such an environment. However, effective risk management will assist the department to achieve its performance and service delivery targets, and to reduce the potential loss of resources. This result's in effective responsibility and accountability structures, improvement of the systems used to report performance, compliance with laws and regulations, thus avoiding damage to its reputation and other consequences.

Key benefits include:

- Effective and efficient service delivery ;
- A rigorous basis for strategic management through consideration of key elements of risk;
- Enhanced risk management strategy decisions through quantification of risk tolerances;
- Identification and management of risks affecting different department and/or different processes;
- Identification and implementation of cost effective, integrated responses to multiple risks;
- Minimizing operational surprises, costly and time-consuming litigation and unexpected losses;
- Rationalization of capital and financial resources;
- Continuity of service delivery;
- Greater transparency in decision making and ongoing management processes; and
- Enhanced accountability and corporate governance processes.

The primary objective of this strategy is to identify the strategic risks faced by the department, together with senior management and provide guidance and input to the Department in developing a transparent risk management system as required by the PFMA.

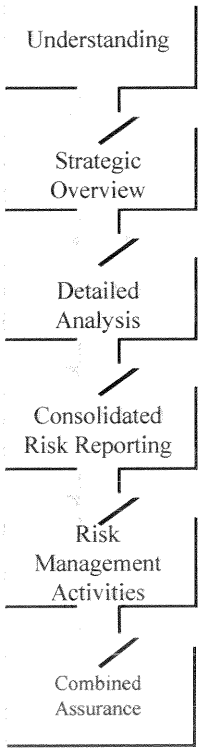
In meeting these objectives the department will take the following approach:

- **Strategic risk assessment:** This involves identifying the strategic risks faced by the Department in a workshop environment
- **Strategic risk analysis:** Analyzing and reporting on the risks identified
- **Risk Management System:** Providing a background to risk management
- **Way Forward:** Recommending a risk management system for the Department based on "best practice" and input from the Department so as to ensure the recommended risk management system is sustainable, practical and accepted by the Department.

Strategic risk assessment

Our Approach

The methodology used in developing a risk management process incorporated several concepts and is summarised in the diagram below.



A business entity model is established against which a risk universe is mapped.

The strategic objectives are assessed and benchmarked.

Detailed business risk analysis is performed. Business objectives, threats to achievement and control responses are identified and measured.

Risks, controls and actions are reported.

Results from the business risk and control effectiveness analysis are used to prioritise actions, direct internal audit effort and assess project requests.

The efficiencies of combined assurance are achieved through co-ordinating management actions, internal audit and external audit efforts.

The risk assessment approach

In order for an organization to be effective, and achieve its objectives it must focus its attention and resources on achieving its objectives. It is clear that once the objectives have been identified management must identify what will prevent the organization from achieving these objectives, specifically it must focus on those areas of most significant risk and concern to stakeholders.

A formal risk assessment is a required to identify these significant risks and hence is a fundamental element the risk management process. This requirement is clearly spelt out in the Treasury Regulations, which state that:

"The accounting officer must facilitate a risk assessment to determine the material risks to which the institution may be exposed ..."

A risk assessment can be undertaken in more than one way, namely:

- Interviews
- Facilitated workshops
- Working groups
- A combination of the above

In performing the strategic risk assessment the best approach is interviews with programme managers. This approach is proposed as the interactive nature of interviews harnesses the positive synergies of group dynamics to produce a result that is better than the sum of individual assessments. This is particularly relevant at a strategic level.

The principal aim of the interviews is to:

- identify the **key strategic risks** threatening the achievement of the objectives;
- assess / size the risks facing the organisation;
- identify and assess the **key controls** in place, and relied upon, and
- agree on any actions emanating from the above, to ensure that the DTEC achieves its objectives.

During the workshop, participants are required to provide input based on their actual knowledge and experience of the Department's operations and environment.

Inherent limitations

While significant effort will be given to ensure that the major risks are covered in the workshops, the limited time and the reliance on the knowledge of the participants may not identify all the issues that need to be reviewed. However, there is a high probability that the major risks are assessed. Subsequent risk assessment workshops or risk management activities may identify other issues that will be used to update the workshop results. Having set out the inherent limitations of the results achieved, sufficient evidence will be obtained to provide a meaningful analysis. This analysis identifies areas that need to be given more attention and areas where the current efforts need to be maintained.

Strategic Risk Analyses

The risk assessment allows the department to consider how potential events might affect the achievement of objectives. Management assesses events by analyzing the likelihood and its impact.

The risk analyses process includes 4 steps

Step 1: Quantifying the parameters (scoring system) of impact and likelihood (see the example below);

IMPACT (CONSEQUENCE)

Score	Rating	Description
5	Catastrophic	Loss of ability to sustain ongoing operations. A situation that would cause a standalone business to cease operation
4	Major	Significant impact on achievement of strategic objectives and targets relating to organisational plan.
3	Moderate	Disruption of normal operations with a limited effect on achievement of strategic objectives or targets relating to organisational plan.
2	Minor	No material impact on achievement of the organisation's strategy or objectives.
1	Insignificant	Negligible impact.

LIKELIHOOD (FREQUENCY, PROBABILITY)

Score	Rating	Description
5	Common	The risk is almost certain to occur more than once within the next 12 months. (Probability = 100% p.a.)
4	Likely	The risk is almost certain to occur once within the next 12 months. (Probability = 50 – 100% p.a.)
3	Moderate	The risk could occur at least once in the next 2 – 10 years. (Probability = 10 – 50% p.a.)
2	Unlikely	The risk could occur at least once in the next 10 - 100 years. (Probability = 1 – 10% p.a.)
1	Rare	The risk will probably not occur, i.e. less than once in 100 years. (Probability = 0 – 1% p.a.)

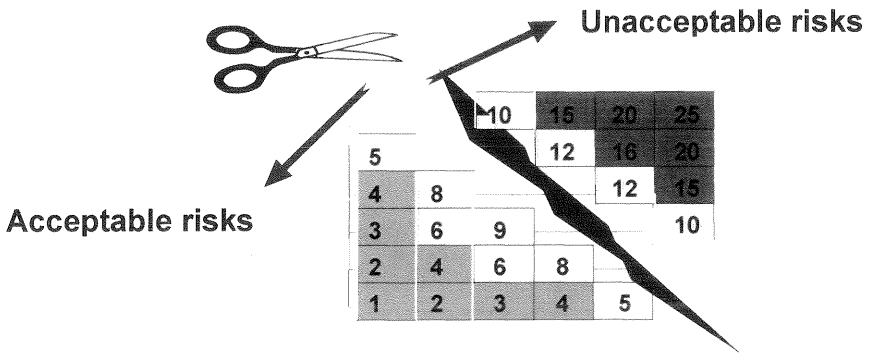
Step 2: Applying the parameters to the risk matrix to indicate what areas of the risk matrix would be regarded as high, medium or low risk (see the example below);

Risk index = impact x likelihood

I	5	5	10	15	20	25
M	4	4	8	12	16	20
P	3	3	6	9	12	15
A	2	2	4	6	8	10
C	1	1	2	3	4	5
T		1	2	3	4	5
		LIKELIHOOD				

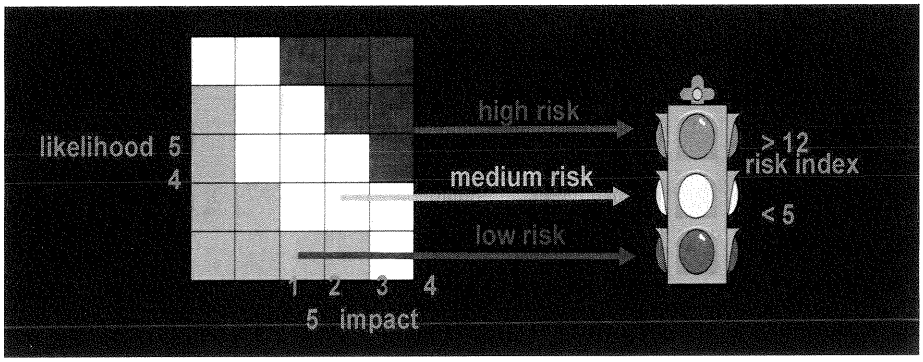
Risk index	Risk Magnitude
20 - 25	Maximum
15 - 19	High risk
10 - 14	Medium risk
5 - 9	Low risk
1 - 4	Minimum risk

Step 3: Determining the risk acceptance criteria by identifying what risks will not be tolerated (see the example below);



Step 4: Determine risk acceptability and what action will be proposed to reduce the risk (see the example below).

Risk index	Risk magnitude	Risk acceptability	Proposed actions
20 – 25	Maximum risk	Unacceptable	Take action to reduce risk with highest priority, accounting officer and executive authority attention.
15 – 19	High risk	Unacceptable	
10 – 14	Medium risk	Unacceptable	Take action to reduce risk, inform senior management.
5 – 9	Low risk	Acceptable	No risk reduction - control, monitor, inform management.
1 - 4	Minimum risk	Acceptable	No risk reduction - control, monitor, inform management.



Application scope

This risk management strategy will apply to all officials of the Department of Environment and Nature Conservation.

3. POLICY FRAMEWORK

IDENTIFICATION AND CONSULTATION OF STAKEHOLDERS

Everyone in the department has the responsibility to make the risk management strategy effective and successful.

Management is accountable to the executive authority, which provides governance, guidance and oversight. By selecting management, the executive authority has a major role in defining what it expects in integrity and ethical values and can confirm its expectations through oversight activities. Similarly, by reserving authority in certain key decisions, the executive authority plays a role in setting strategy, formulating high-level objectives and broad-based resource allocation. 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;
- Reviewing the department's portfolio view of risks and considering it against the department's risk tolerance; and
- Being aware of the most significant risks and whether management is responding appropriately.

Management – The accounting officer is ultimately responsible for and should assume "ownership" of risk management. More than any other individual, the accounting officer sets the "tone at the top" that affects integrity and ethics and other factors of the control environment. The accounting officer fulfills this duty by providing leadership and direction to senior managers and reviewing the way they manage the department. Senior managers, in turn, assign responsibility for establishment of more specific risk management policies and procedures to personnel responsible for individual units' functions.

Risk Officer – A risk officer works with other managers in establishing and maintaining effective risk management in their areas of responsibility. The risk officer also may have responsibility for monitoring progress and for assisting other managers in reporting relevant risk information up, down and across the department, and may be a member of an internal risk management committee.

Internal Auditors – Internal auditors play an important role in the monitoring of risk management and the quality of performance as part of their regular duties or upon special request of senior management, which is approved by the audit committee. They may assist both management and the executive authority or audit committee by monitoring, examining, evaluating, reporting on and recommending improvements to the adequacy and effectiveness of management's risk management processes. Such request should however be routed through the audit committee to ensure that such involvement does not effect the completion of the approved audit plan.

Other Personnel – Risk management is, to some degree, the responsibility of everyone in a department and therefore should be an explicit or implicit part of everyone's job description. Virtually all personnel produce information used in risk management or take other actions needed to manage risks. Employees are responsible for communicating risks such as problems in operations, non-compliance with the code of conduct, other policy violations or illegal actions.

A number of external parties often contribute to achievement of a department's objectives. External auditors bring an independent and objective view, contributing directly through the financial statement audit and internal control examinations, and indirectly by providing additional information useful to management and the executive authority in carrying out their responsibilities. Others providing information to the department useful in effecting risk management are regulators, customers, financial analysts and the news media.

External parties, however, are not responsible for the department's risk management.

TIMEFRAMES

The first draft of this strategy was completed in January 2007, followed by extensive consultations with directorates and management. The second draft was completed in October 2007 and the final draft in January 2008.

IMPLEMENTATION STRATEGY

In implementing this strategy we will interact with senior management in identifying the strategic risks, designing the risk management system and agreeing the way forward. Our approach will be designed with a view to interact closely and as far as is practically possible with key members of the senior management team, specifically the Chief Financial Officer and Accounting Officer. This approach will be adopted, because it is ultimately the Accounting Officers responsibility to ensure that a "transparent risk management system" is in place as required by the PFMA.

Implementation date

This risk management strategy will be effective as from _____

FINANCIAL IMPLICATIONS

This unit will reside in the management accounting unit which has a budget of approximately R600 000.

COMMUNICATION

It is the financial management unit's responsibility to communicate this strategy to all officials within the department. This communication will be done through the departmental news letter and/ or electronic media.

COMPLIANCE, MONITORING AND EVALUATION (M&E)

An Accountability Forum will serve as a structure to evaluate and monitor compliance to the risk management strategy. The Head of Department, Programme Managers, Programme Heads will serve on this forum. The following issues could be dealt with on this forum:

- **Risk Management Reports,**
- **SCOPA resolutions,**
- **Internal audits and the Auditor General's reports,**
- **Audit committee reports,**
- **Litigations,**
- **Internal controls, and**
- **ICT, Supply chain management inspectorate report.**

POLICY REVIEW

The Risk Management Strategy will be reviewed annually to incorporate future legislature changes. This policy allows for changes to be made in the fourth quarter of each financial cycle. However, it also provides for any urgent amendments to be made once-off in every financial cycle.

POLICY IMPACT

In addition to providing all stakeholders with comfort that the Department is being run according to best practice and management complies with legislation, the following benefits can be derived from the implementation of an effective, robust risk management process:

- *Accounting Officer*
  - Effective discharge of governance and PFMA responsibilities
  - Improved understanding of the Department, the risks that threaten it and how these are being managed
  - Provides a tool to effectively monitor management
- ***Senior Management***
  - **Effective discharge of governance and PFMA responsibilities**
  - Informed decision making
  - Effective direction and use of management time and the organisation's resources to manage risks – through prioritisation of management actions
  - Fewer surprises

- Improved management culture - often risk is a mirror image of opportunity - Risks are no longer merely hazards to be avoided but rather most often opportunities to be embraced

- *Audit Committees*

- Effective discharge of governance and PFMA responsibilities
- Improved understanding of the organisation, the risks that threaten it and how these are being managed
- Provides a tool to effectively monitor management in the audit committee's sphere of responsibility
- Provides a tool to effectively drive the audit process and to monitor the activities of both the internal and external auditors

- *Internal audit*

- Improved understanding of the key risks faced by management at the highest level
- The development of an internal audit plan which is relevant and focuses on the areas of key and significant risk to the organisation
- The internal audit work is aligned with management's risk priorities thereby ensuring that internal audit contributes directly toward the achievement of organisational objectives
- Align scarce internal resources with key risks, therefore constantly adding value to the organisation

The accounting officer will commission an audit impact assessment report to ascertain the progress made by this strategy three years after its adoption.

INTERIM MEASURES

The National Treasury Risk Management Framework will be utilized until such a time that this strategy has been approved.

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4. ADOPTION OF POLICY

Approved / ~~Not Approved~~
Comments:

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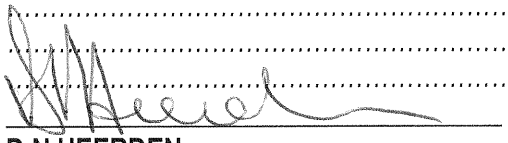

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HEAD OF DEPARTMENT