

EASTERN CAPE DEPARTMENT OF SOCIAL DEVELOPMENT



ENTERPRISE RISK MANAGEMENT FRAMEWORK

2016/2017 – 2018/2019

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**Eastern Cape Department of Social Development
Risk Management Framework**

ABBREVIATIONS

Abbreviation	Description
ECDSD	Eastern Cape Department of Social Development
PFMA	Public Finance Management Act
NT	National Treasury
COSO	Committee of Sponsoring Organizations of Treadway
HOD	Head of Department
AC	Audit Committee
CRO	Chief Risk Officer
CAE	Chief Audit Executive
AG	Auditor General
FPP	Fraud Prevention Plan
IA	Internal Audit

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1. BACKGROUND

Eastern Cape Department of Social Development (ECDSD) is required to comply with the Public Finance Management Act No. 1 of 1999 (as amended by Public Finance Management Act No. 29 of 1999) ("PFMA"), National Treasury Regulations (as amended) ("NT"), relevant circulars, while adherence to the King III Report on Corporate Governance ("King III") and Committee of Sponsoring Organizations (COSO) Risk Management Framework is also recommended.

The PFMA, NT, King III and COSO reports have numerous requirements, among these being that an organization must maintain adequate and effective systems of internal control and risk management.

However, risk management is crucial to both the requirements of the PFMA, NT, King III and COSO reports, as well as good business management and good corporate governance.

As risk management is a significant undertaking, the purpose of this document is to provide a framework, whereby ECDSD's risk management activities and responsibilities thereto can be identified, and effectively and efficiently managed.

The Accounting Officer of ECDSD is ultimately responsible for the running of ECDSD and its system of risk management i.e. the Accounting Officer is responsible for understanding the level of risk undertaken, as well as the processes in place to mitigate risk.

In turn, the Accounting Officer establishes structures and delegations for the day-to-day management and operations of the organisation and its risk management activities.

2. PURPOSE OF THE FRAMEWORK

The ECDSD's ERM framework is based on the principles embodied in the Public Finance Management Act (PFMA), 1 of 1999, Public Sector Risk Management Framework published by National Treasury, Enterprise Risk Management Framework published by the Committee of Sponsoring Organisations (COSO) of the Treadway Commission, International Guideline on Risk Management (ISO 31000), King Code on Governance Principles (King III) and Batho Pele principles. The principles outlined in the framework are incorporated in risk management-related policies and procedures that support the Department's ERM framework.

The objectives of this framework are to embed a uniform approach to ERM at the ECDSD and identify and assess all the risks that could affect the achievement of the Department's objectives, its people, reputation, business processes and systems, as well as its financial and environmental performance. It also serves to ensure that these risks are dealt with at an acceptable level.

Key objectives:

- Apply best practice principles to minimise losses and protect the ECDSD's capital base

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- Promote a risk awareness culture
- Maximise financial/development returns within an acceptable risk profile (maximise stakeholder's value)
- Strengthen controls.

3. LEGISLATIVE REQUIREMENTS AND BEST PRACTICE

The most applicable current legislation and best practice guidance relative to risk management are:

- Public Finance Management Act of 1999 ("PFMA").
- National Treasury Regulations of 2005 ("NT").
- King III Report on Corporate Governance of ("King III").
- COSO Risk Management Framework ("COSO").
- Public Sector Risk Management Framework recommendations

3.1 Specific Public Finance Management Act and National Treasury Regulations provisions on risk management.

Ref.	Section	Wording
PFMA 38 (a)(i)	General Responsibilities of Accounting Officers	The Accounting Officer (AO) is responsible to ensure the department has and maintains an effective, efficient and transparent system of financial and risk management and internal control.
PFMA 45 (a)	Responsibilities of Other Officials	An official in the department must ensure that the system of financial management and internal control established for that department is carried out within the area of responsibilities of that official.
NT 13.1	Risk Committees	The Risk Management Committee is appointed by the Accounting Officer / Authority to assist them to discharge their responsibilities for risk management.
NT 3.1.10	Audit Committees	The audit committee reviews the risk areas of the department's operations to be covered in the scope of internal and external audits.
NT 3.2.1	Risk Assessments	The AO must ensure that a risk assessment is conducted regularly to identify emerging risks of the department. A risk management strategy , which must include a fraud prevention plan, must be prepared and used to determine the skills required to improve controls and manage risks. The strategy must be clearly communicated to all officials and incorporated into the language and culture of the institution.

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3.2 Specific King III Report risk management strategies.

An essential focus of King III is that the board (Executive management) should “exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the company’s business.” Risk is positioned as a cornerstone of corporate governance and risk governance is substantially different to the requirement to implement risk management. Greater emphasis is placed on the board (Executive management) to ensure that it is satisfied with the management of risk.

To achieve the above:

- The Accounting Officer should be responsible for the governance of risk;
- The Accounting Officer should determine the levels of risk tolerance;
- The risk committee or audit committee should assist the Accounting Officer in carrying out his /her responsibilities;
- The Accounting officer should delegate to management the responsibility to design, implement and monitor the risk management plan;
- The Accounting Officer should ensure that risk assessments are performed on a continuous basis;
- The Accounting Officer should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks;
- The Accounting Officer should ensure that management considers and implements appropriate risk responses;
- The Accounting Officer should ensure continuous risk monitoring by management;
- The Accounting Officer should receive combined assurance regarding the effectiveness of the risk management process; and
- The Accounting Officer should ensure that there are processes in place enabling comprehensive timeous, relevant and regular risk disclosure to stakeholders.

4. GOVERNANCE PRINCIPLES

ECDSD has defined the following principles that relate to the responsibilities for, and governance of risk management, as well as principles to be adopted by those involved in aspects of the risk management process:

4.1 Senior Management is accountable to the Head of Department (HOD) for the identification and management of the risks that impact on their respective directorates. The Head of Department of ECDSD has ultimate responsibility to the Executive Authority (MEC) for ensuring risk is appropriately managed.

4.2 The Head of Department, through ECDSD’s Committees, is responsible for ensuring that management executes their risk management responsibilities.

4.3 There may be risk matters that fall outside DDGs’ scope of responsibility. In these circumstances the Head of Department will assume responsibility for their identification and management.

4.4 A continuous improvement/ learning culture is encouraged at all levels.

4.5 Relevant regulatory and legislative requirements, laws and codes of conduct/ practice are observed and implemented as appropriate.

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4.6 Risks will be reported across ECDSD on a consistent basis.

4.7 Where appropriate, risks identified should be quantified in financial terms using a consistent approach in order to quantify exposures and allocate resources as appropriate.

4.8 To ensure that ECDSD's risk management processes are adequately structured and have integrity, a formal risk management process must be structured, embedded in business processes and subject to regular monitoring.

4.9 It is important to ensure that risk management and awareness is embedded throughout ECDSD, which requires that:

- Risk management processes are integrated into all core business processes.
- An organisational structure is in place to support the risk management framework and strategy and ensure there is clear ownership and communication of risk.
- The organisational policy and goals help define the criteria by which it is decided whether a risk is acceptable or not.
- Clear risk escalation processes are in place.
- Risk management to be included as part of the personal performance management system for relevant personnel.
- Appropriate training in risk management at all levels.

5. RISK MANAGEMENT OVERSIGHT

A Risk Management Committee will be responsible for the oversight of the risk management. This Committee shall not supersede the Audit Committee, but rather act to strengthen the role and objectives of the Audit Committee, but will liaise closely with the Audit Committee on all matters and plans.

5.1 The Risk Management Committee is established within the Department in response to the requirements of section 38(1)(a)(i) of the PFMA. The Risk Management Committee will consist of the following members of senior management:

- A member of the Audit Committee that is not in the employ of the institution;
- Standing invitees to the Committee shall be:
 - Chairperson (External).
 - Chief Risk Officer.
 - Chief Audit Executive.
 - Other members of management (the committee will invite relevant program managers based on the risks to be addressed).
 - Any other person who may be co-opted to provide specialist skills, advice and counsel.
 - A representative from the Auditor General.

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5.2 The Risk Management Committee will undertake the roles and responsibilities of a typical Risk Management and Fraud Prevention Committee. These are detailed below:

5.2.1 Risk Management

- Advise management of ECDSD and the Audit Committee on matters relative to risk management;
- Ensure that ECDSD's risk management strategies are communicated throughout the Department, and that it is embedded in the controls and systems of ECDSD.
- Ensure that the annual formal risk assessment is timeously performed;
- Ensure that the strategic and divisional risk registers are updated immediately after the formal risk assessment process;
- Review the risk strategies used (e.g. manage, outsource, insure, ignore etc.) at ECDSD, ensure that they are relevant and are being properly applied;
- Review the risks reported by the various departments and/ or programmes, and consider what action is required relative thereto;
- Evaluate the reports of the external and internal auditors in relation to risk;
- Review any combined assurance approach at the Department;
- Ensure that an annual risk management operational plan is approved by the Audit Committee.
- Obtain assurance that the risk management processes are being properly performed; and
- Ensure that adequate risk management training and awareness is conducted throughout ECDSD.

5.2.2 Fraud Prevention

- Provide direction, structure, content and facilitate the implementation of the Fraud Prevention Plan ("FPP");
- Provide recommendations relating to the further development of the FPP and ensure its effective implementation;
- Review and endorse the FPP on an annual basis;
- Promote and foster a culture based on the highest standards of probity, integrity and conduct;
- Ensure compliance with policies, procedures, rules, legislation and other relevant government prescripts;
- Monitor the effectiveness of the various components of the FPP;
- Ensure that regular fraud risk assessments are performed, and ensure that targets and timeframes are set to deal with the identified fraud risks;
- Consider reports on forensic investigation findings and review for adequacy of subsequent actions;
- Create awareness of the FPP in order to sensitise employees on fraud detection and prevention;
- Regularly report to the Audit Committee on incidents and statistics of fraud and corruption, together with the findings of forensic investigations;
- Review the register of declarations of interest, acceptance of business courtesies and monitor such conflicts and their resolution on a quarterly basis;
- Establish sound working relations with Internal Audit on governance and fraud prevention issues; and
- Monitor disciplinary cases and ensure that there is an efficient and effective system in place to track progress of outstanding and pending cases.

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5.2.3 Sub Risk Committee Functionality

- The function of the Sub Risk Committee is to ensure that Risk Management is embedded in the organisation at large; the committee is also responsible for driving and monitoring of divisional and operational risks within the Department. The Sub Risk Committee is expected to meet at least once a quarter to discuss progress on divisional and operational risks.
- The Sub Risk Committee will report to the Risk Management Committee quarterly.
- The Chairperson of the Sub Risk Committee will be the Chief Risk Officer.
- The sub-risk committee will be composed of CRO as Chairperson of the committee and all Deputy Directors of the ECDSD.

5.2.3 Drawing and implementing Timetable of Activities

The activities of the Risk Management Committee will be aided by the use of a risk management timetable of key events. Although this timetable will be updated to suit ECDSD's requirements, an initial version is as follows:

NO.	ACTIVITY	TIMING
1	Adoption Strategic risk register	March
2	Adoption of Divisional Risk register	March
4	Risk Management Committee Meetings	Quarterly
5	Adoption of Chief Risk Officers Report	Quarterly
6	Risk Management Implementation Plan	March
7	Review & Approval of the Risk Committee Charter	March
8	Adoption of Sub Risk Committee Reports	Quarterly
9	Review & Approval of Sub-Risk Committee Charter	March

6. ANNUAL RISK ASSESSMENT

The ECDSD's undertakes a risk assessment annually, in compliance with PFMA conditions and aligned with the King III and Public Sector Risk Management Framework recommendations. The purpose of this process is to identify, measure and manage potential critical risks (strategic, financial, governance, operational and IT governance) for the department to formulate appropriate risk strategies and action plans.

The ECDSD risk assessment process
Components of risk management process

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The components of risk management process are explained below

Establish the risk assessment context

This aspect provides perspective and assists with understanding the nature of the impact on the business. The different contexts include strategic, financial, governance, operational and IT governance risks.

Risk assessment

The risk assessment process enables management to understand the probability of risk and potential impact on the department, while the risk assessment methodology provides management with a portfolio of risks or risk profile.

The risk assessment process consists of the following phases:

- **Risk identification**, which considers the causes and sources of the risks and their positive and negative consequences
- **Risk analysis**, which analyses the potential positive and/or negative consequences of risks and probability of occurrence
- **Risk evaluation**, which tests risks against risk evaluation criteria to create a risk priority map.

Risk treatment

The objective of risk treatment is to determine how the ECSDS responds to events and associated risks. The ECSDS's risk response strategies are to:

- **Terminate:** eliminate, redesign, avoid or substitute the threat
- **Transfer:** move the threat to another party, where possible and

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- **Treat (further):** mitigate or control the threat by implementing additional measures to reduce the likelihood and/or consequence before the threat materialises
- **Tolerate:** retain the threat for a predefined period of time after careful consideration of its consequences.

Risk reporting and escalation

The ECSD Board, Executive Management, Risk Management Committee and Audit Committee should be kept abreast of key risks and the actions resulting from risk management activities timeously and consistently.

Monitoring and review

Monitoring ensures the consistent application of the framework across the organisation, the effectiveness of the ERM policies and procedures and identifies weaknesses to take corrective action.

Communication and consultation

Effective communication and consultation increase awareness about the risk management programme. Awareness campaigns, training and education sessions, as well as newsletters, are used to reach employees throughout the organisation.

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6.2 Risk Definition ,Ranking and Risk Approach

For purposes of risk identification, the following definition of a risk will be used:

The possibility of any event, negative or positive, either internally or externally generated (where the impact may be internal or external), which may hinder a process's achievement of its business (explicit and implicit) objectives.

In order to rank/ rate identified risks, each risk identified will be rated in terms of the following:

- (a) *Impact (the potential effect on the department of the risk event).*
- (b) *Likelihood (the probability of the occurrence of the risk event)*

The impact and likelihood ratings are defined as follows:

6.2.1 IMPACT RATING

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Scale	Severity Ranking	Continuity of Service Delivery	Technical Complexity	Financial
5	Significant	Risk event will result in widespread and lengthy reduction in continuity of service delivery to customers of greater than 48 hours	Use of unproven technology for critical system / project components. High level of technical interdependencies between system components.	Leads to termination/huge loss in a project
4	Major	Reduction in service delivery or disruption for a period ranging between 24 & 48 hours over a significant area	Use of new technology not previously utilised by the department for critical systems / project components.	Cost increase > 20%
3	Moderate	Reduction in service delivery or disruption for a period between 8 & 48 hours over a regional area	Use of unproven or emerging technology for critical systems / project components.	Cost increase > 10%
4	Minor	Brief local inconvenience (work around possible). Loss of an asset with minor impact on operations	Use of unproven or emerging technology for systems / project components.	Cost increase < 10%
1	Insignificant	No impact on business or core systems	Use of unproven or emerging technology for non-critical systems / project components	Minimal or no impact on cost

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6.2.2 LIKELIHOOD RATING

This is the likelihood that the identified risk will occur within a specified period of time (between 1 and 3 years) on the basis that ***there are no specific controls or controls in place are not adequate to effectively reduce the risk..***

6.2.2.1 Qualitative Assessment of Probability of Occurrence

The table below is to be used to assist management in quantifying the probability of a specific risk occurring:

Likelihood Factor	Measurement Criteria	Qualification Criteria	Rating
Almost Certain	Certain to occur, almost every time.	The risk is almost certain to occur in the current circumstances	5
Likely	Will occur frequently, 1 out of 10 times.	More than an even chance of occurring	4
Moderate	Will occur sometimes, 1 out of 100 times.	Could occur quite often	3
Unlikely	Will seldom occur, 1 out of 1 000 times.	Small likelihood but could happen	2
Rare	Will almost never occur, 1 out of 10 000 times.	Not expected to happen - Event would be a surprise	1

Identified risks will also be categorised as follows:

- **Inherent risk** i.e. before taking into account the controls in place; and
- **Residual risk** i.e. after taking into account the effectiveness of current controls in place.

6.2.2.2 Risk Map

The risk map below will be used in quantifying the magnitude of risk identified by management.

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

Magnitude of Risk = Likelihood x Impact

6.2.2.3 Residual Risk Exposure of the department in relation to level of acceptance of residual risk exposure of the department. (Inherent risk x control effectiveness)

Priority	Suggested action to manage risk	Control improvements	Priority
High 15 +	Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk. Management should take immediate action to reduce risk exposure to an acceptable level.	Level of residual risk – Implies that the controls are fundamentally inadequate (poor design). Controls require substantial redesign. Unacceptable	High 15 +
Medium 8 - 14	Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention	Unacceptable level of residual risk – Implies that the controls are either inadequate (poor design). Controls require some redesign.	Medium 8 - 14

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	required to achieve an acceptable level of residual risk. Management should constantly monitor the risk exposure and related control adequacy.		
Low 1 - 7	Management may consider reducing the cost of control.	Mostly acceptable level of residual risk – Requires minimal control improvements.	Low 1 - 7

Internal Control and /or Risk Management Effectiveness Rating Scales

Rating	Control and / or RM effectiveness	Category of Controls Adequacy and Effectiveness to alter the inherent risk	Risk Management Effectiveness Scales
5	Non-existent	Controls activities are inadequate and ineffective and risk exposures are pervasive.	No Risk Management. The public institution lets the risk occur and lives with the results.
4	Weak	Control activities are limited in design adequacy as well as operating effectiveness to mitigate risks exposures. Some of the risk exposure appears to be controlled, but there are major deficiencies.	Low Risk Management The risks typically can be detected, but the public institution relies more on contingency and recovery plans.
3	Satisfactory	Control activities are improved in design adequacy and operating effectiveness to mitigate risks exposures. However, there is still room for improvement in certain areas.	Moderate Risk Management Through effective monitoring, occurrence of risk is identified and with sufficient time to act its impact can be reduced or opportunity is increased.
2	Good	Control activities are adequately designed and operating effectively to mitigate the majority of key risk exposures.	Extensive Risk Management ongoing monitoring and proactive activities help assure the impact of risk occurrence will be minimal or opportunities enhanced.
1	Very good	Control activities are adequately designed and operating effectively to manage and control all key risk exposures.	Continuous Risk Management A comprehensive risk management programme is in place that helps assure that the risks are prevented or there will be no measurable impact on objectives or opportunities are optimized.

Control Effectives	Rating 1-5	Calculation of a control effectiveness Rating	Result used to calculate residual value
Non-existent(no controls in place)	5	5/5(Rate for this effectiveness/maximum rate)	1
Weak	4	4/5	0.8

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Satisfactory	3	3/5	0.6
Good	2	2/5	0.4
Very Good	1	1/5	0.2

6.3 Risk Register

Identified risks should be recorded in a risk register, consisting of at least the following variables:

- Risk Category;
- Link risk to the strategic focus area/ objective, where possible;
- Description of the risk;
- Background to the risk/ Contributory factors;
- Controls (policies, procedures, processes, systems, structures) actually in place to mitigate the identified risk);
- Impact rating);
- Likelihood rating);
- Total Inherent Risk Rating;
- Residual Risk Rating;
- Actions to improve management of the risk identified/ Controls improvements;
- Risk Owners; and Action owners;
- Timeframes/ Due date.

6.4 Risk Classification

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6.4.1.1 Key risk categories:

RISK TYPE	BROAD DEFINITION	EXAMPLES OF KEY RISKS
Strategic Risk	The risk that strategic intent and direction cannot be sustained and/or objectives cannot be achieved.	<ul style="list-style-type: none"> • Inappropriate strategy • Incorrect implementation of strategic objectives • Wrong strategic decision taken • Lack of leadership • Inadequate succession planning resulting in inability to achieve objectives
Governance Risk	The structures and processes in place to ensure good governance in the organisation.	<ul style="list-style-type: none"> • Lack of strategy and objectives • Lack of or inappropriate delegation of authority • Lack of or inadequate policies and procedures • Lack of or inappropriate communication and reporting structures • Nepotism
Cultural Risk	The alignment of ethics and values in the organisation.	<ul style="list-style-type: none"> • Poor or inconsistent ethics and values throughout the organisation • Different beliefs and values impacting goal alignment • Different beliefs and values impacting acceptance of change and integration
Organisational Structure Risk	The risk that organisational structure is not suited to achievement of objectives.	<ul style="list-style-type: none"> • Inappropriate organisational structure • Strategy change without appropriate organisational structure change
Reputational Risk	The risk that the actions or inaction harms the reputation of the Department.	<ul style="list-style-type: none"> • Damage to brand due to adverse public event • Damage to reputation due to release of inaccurate information
Financial Risk	The risk of financial loss or incorrect financial decisions being made.	<ul style="list-style-type: none"> • Incomplete, inaccurate or unreliable financial information • Inadequate financial reporting for decision making • Lack of or inappropriate finance policies and procedures • Financial loss/ loss of assets
Procurement Risk	The risk of unauthorised or inappropriate procurement.	<ul style="list-style-type: none"> • Lack of procurement policies and procedures • Unauthorised expenditure
Budgeting Planning Risk	The risk that the budgeting process is inadequate or inappropriate to achieve the Department's objectives.	<ul style="list-style-type: none"> • Inadequate funding • Inaccurate budgeting and planning

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RISK TYPE	BROAD DEFINITION	EXAMPLES OF KEY RISKS
Communication Risk	Inappropriate or ineffective communication within the Department.	<ul style="list-style-type: none"> • Lack of communication structures or processes • Inappropriate or inadequate reporting
Legal Risk	<ul style="list-style-type: none"> • The risk that Department will be exposed to contractual obligations which have not been provided for. • Unwillingness of a counterparty to discharge contractual obligations. 	<ul style="list-style-type: none"> • Incorrect legal advice given on the law or contractual interpretation
Compliance Risk	Is the risk of not complying with policies and procedures/ laws and regulations?	<ul style="list-style-type: none"> • Failure to comply, detect or report non compliance with applicable laws and regulations.
Fraud Risk	The risk of fraud, corruption or maladministration.	<ul style="list-style-type: none"> • Loss of finance or assets due to fraud, corruption or maladministration
Technology Risk	The risk of obsolescence of infrastructure, deficiency in integration, failures/inadequacies in systems/networks and the loss of accuracy, confidentiality, availability and integrity of data.	<ul style="list-style-type: none"> • Inadequate procedures to prevent, detect and follow-up on access violations (including data, application, firewall and internet) • Inaccurate or unreliable information due to system problem/failure • Non compliance with the information security policy, e.g. change control, e-mail policy, anti-malicious code, etc. • Inadequate procedures to develop, maintain and test the Disaster Recovery plan (including telecommunications, data backup)
Human Resource Risk	The risk of ineffective or inefficient HR practices and infrastructure and the risk that employees are unable to achieve objectives.	<ul style="list-style-type: none"> • Inappropriate alignment of staff and culture to Department strategy and values • Exposure to loss of key employees • Inadequate measurement, and management of staff performance and development • Lack of or inappropriate employee training • Poor recruitment decisions • Inability of employees to perform their functions adequately and effectively
Employee Value Risk	The risk that employees are not valued.	<ul style="list-style-type: none"> • Lack of employee motivation • Poor productivity of employees • Employees not adequately compensated • Poor retention of employees

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RISK TYPE	BROAD DEFINITION	EXAMPLES OF KEY RISKS
Security Risk	The risk that human resources or physical assets are not appropriately safeguarded.	<ul style="list-style-type: none"> • Loss or theft of assets • Loss of or endangerment of human life

6.4 Risk Appetite and Risk Tolerance

Risk appetite

Risk appetite is the amount of risk exposure, or potential adverse impact from an event, that the organisation is willing to accept/retain. Once the risk appetite threshold has been breached, risk management treatments and business controls are implemented to bring the exposure level back within the accepted range.

Risk tolerance

Risk tolerance indicates the acceptable/unacceptable deviations from what is expected. Before determining what to do about risks, the department must consider the amount of risk it is prepared to tolerate. This will vary according to the perceived importance of particular risks.

With out prejudice to levels set in par 6.2.2.3, The deparment considers the following risk exposures as Zero Tolerance:

- Fraud risk
- Occupational health and safety issues

7. RISK CONTROL

7.1 Risk Strategies

Heads of Directorates and Management

The risk and control management and monitoring process is a key responsibility of management and staff.

7.1.1 Management are responsible to design and implement systems of control to mitigate risk in terms of ECSDS's acceptable levels.. Management have a fiduciary duty to identify and analyse the risks facing their units/ section, and to put plans/ controls/ systems in place to manage risks to acceptable levels.

The control "tools" management can utilise the following:

- Policies and procedures;
- Codes of conduct, ethics and corporate governance;
- Organisation/ segregation of duties;
- Appropriate levels of authority and responsibility;
- Supervision and review;
- Skilled and trained staff;
- Accounting systems;
- Budgets;
- Computerised/ application systems;

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- Reports;
- Job descriptions; and
- Performance management.

7.1.2 By understanding all risks in an integrated framework, organisations can execute proper strategies to successfully achieve their objectives and to meet their performance goals. The following risk strategies have been adopted by the department for all identified risks
::

- Transfer;
- Accept;
- Treat/ mitigate through rigorous management practices; or
- Avoid: Simply reject by eliminating a process, a product, or a geographical zone.

7.1.3 Management should carefully consider whether to implement controls that are preventative, detective or corrective in nature, while also weighing up the cost/benefit of manual versus automated controls.

7.1.4 Management are also responsible to ensure that their staff are adequately trained and educated in their duties, and that they are performing their duties as expected. This is re-enforced by management oversight and review, as well as ECDSD's performance management system and the results of audits conducted.

7.1.5 Staff is likewise responsible to ensure that they execute their duties properly. This aspect is re-enforced in the PFMA S45 (a), which states: *"An official in the department must ensure that the system of financial management and internal control established for that department is carried out within the area of responsibilities of that official"*.

7. 1.6 The intended effect of the above is that risk management will be properly managed via the execution of control activities throughout ECDSD. Proper control management will also result in control "gaps", control breakdowns, fraud, inefficiencies and waste being promptly remedied and addressed. It will also ensure that the control strategy relative to risk is appropriate i.e. accept, avoid, outsource, insure, manage risks etc.

7.2 Risk Monitoring

7.2.1 The Risk Management Committee must monitor the handling of key risks assigned to program managers and report to the Audit Committee to ensure that risk management processes and systems are effective. Monitoring plans should be developed by the Committee to facilitate the monitoring of each key risk.

7.2.2 Chief Directorates are required to make a quarterly attestation that all potential risks, including any new emerging risks, have been identified, and are recorded in the directorate/ process-level risk registers, and that the controls have been reviewed for effectiveness and action plans prepared, where appropriate.

7.2.3 The primary objective of the Risk Management Committee is to assist the Accounting Officer in discharging his/her accountability for risk management by reviewing the effectiveness of the Department's risk management systems, practices and procedures, and providing recommendations for improvement.

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7.2.4 This self-assessment must be signed off by the heads of Directorate, and administered by the Directorate risk champion/ officer. Key controls and the overall risk environment should be subject to ongoing monitoring to assess the adequacy of risk management activities. This is achieved by:

- Monitoring of operational processes by management.
- Annual update and regular review of the relevant risk assessments.
- Action planning.
- Inclusion of other assurance providers such as internal and external audit, in developing a combined assurance plan to provide management with reasonable assurance that their risk profile is valid, accurate and complete (risk-based auditing).
- Compliance reviews for specific control strategies.

7.2.5 It is also anticipated that the Risk Management Committee will require the following information from directorates at its meetings:

- Control breakdowns.
- Inefficiencies and waste.
- Fraud occurrences.
- Emerging risks.
- Recent, present and anticipated legal action.
- Action to mitigate identified risks.

Any other relevant risk occurrence and risk management reporting e.g. insurance cover.

7.2.6 Internal Audit Role

Internal audit will assist management in the risk management process through giving assurance to Management and the Accounting authority through reporting to departments audit committee on the key risk identified by the department.

Disclosures

The PFMA, NT regulations and King III Report set out disclosure requirements relative to the risk management process:

7.2.6 The Head of Department is responsible to ensure that proper, accurate and factual disclosures are made in terms of statutory and/ or other requirements (e.g. in the Annual Report). Such disclosures should follow proper consultations with management, the Audit Committee, internal and external audit.

7.3 Risk Reporting

7.3.1 The purpose of risk reporting is to ensure that management, the Risk Management Committee, the Audit Committee and the Head of Department are informed of the key risks facing the Department, and that appropriate actions are being taken to manage risks.

7.3.2 Customised views of ECDSD's risk profile should be provided for different audiences. The preferred report formats will be periodically discussed and agreed with each stakeholder group (refer below for the proposed format)

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7.3.3 Risk reporting will be facilitated by the Chief Risk Officer, working with the Risk Management Committee, and will be submitted to the Audit Committee and the Head of Department, through the relevant Committee's as determined by him/ her and other relevant management structures on an agreed frequency and in response to authorised ad hoc requests, based on the information recorded in the risk registers.

7.3.4 The risk management committee must report to the audit committee and accounting authority on a quarterly basis on all key risks. The report must include at least, but is not limited to, the following:

- Key risks
- Date identified (per Risk Register)
- Date first discussed at Risk Management Committee meeting
- Risk strategy selected
- Name of program manager responsible
- Action plans
- Performance against action plans
- Corrective steps taken (if applicable)

7.4 Risk Management

7.4.1 Risk Awareness

Effective risk management is dependent on commitment, which must start at the top of ECDS and filter down to the lowest level of the organisation. Without the right commitment to risk management and culture of control, the implementation of effective risk management will not succeed.

King III makes the following statement on the culture of control:

"This sets the tone of the organisation and should be seen as a foundation for all other components of risk management and control in providing the necessary discipline and structure."

The following methods which ensure that every employee sees risk management as part of his/ her responsibilities must be infused in the culture of the department:

- Management leading by example i.e. showing employees that they are committed to better risk management and effective systems of control.
- Creating an awareness of the purpose and benefits of risk management.
- Clearly defining the risk management process to be followed within ECDS, as well as the responsibilities of employees and management in this regard.
- Ensuring that risk management is entrenched into the way of doing business and that it is not seen as an add-on. This should be done by integrating risk reporting into the current reporting systems of ECDS, ensuring that risk is a topic that is discussed regularly in management and Audit Committee meetings.
- Implementing a "common code of conduct and ethics" for all employees.
- Training on risk management and systems of controls.

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- Integrating risk management responsibilities into the performance management process.

7.4.2 Risk Training

A communication and training strategy is important for ensuring that personnel embrace the risk management concept and that it becomes an integral part of ECDSD's culture by:

- Introducing the concept of risk management and the Risk Management Framework.
- Educating management and employees in risk management policies and practices.
- Communicating risk assessments and risk responses to responsible parties.
- Facilitating improvement and enhancements to the risk management plan.
- Facilitating and encourage regular reviews of ECDSD's risks and risk management action plans.
- Monitoring the risk management process.
- Managing risk management issues (e.g. new risks, changes in legislation) that arise.

7.5 Fraud Management

7.5.1 Risks classified as fraud risks, should be managed in accordance with the fraud prevention plan.

7.5.2 Using the risk register the fraud risks should be prioritized. Once prioritized, a strategy should be developed to address the key fraud risks. The strategy must be chosen in accordance with the approved fraud prevention plan of the department.

8. FRAUD PREVENTION PLAN

8.1 The Accounting Officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the Department. A risk management strategy, which must include a **fraud prevention plan**, must be prepared and used to determine the skills required to improve controls and manage risks. The strategy must be clearly communicated to all officials and incorporated into the language and culture of the institution.

8.2 ECDSD believes its fraud prevention plans are an integral part of its ongoing risk management activities and plans. While prevention, detection and management of fraud should be a natural part of the organisation's internal control, governance and human resources systems, ECDSD has formalised its fraud prevention, detection and response activities into an approved "Fraud Prevention Plan".

9. FREQUENCY OF REVIEW

The Risk Management Framework will be reviewed at least every three years.

10. RECOMMENDATIONS FOR APPROVAL

**Eastern Cape Department of Social Development
Risk Management Framework**

Developed by:

 30.04.2016

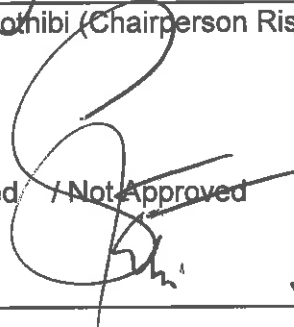
Mr. L. Zenzile (Chief Risk Officer)

Recommended / Not Recommended

 30.04.2016

Mr. L. Mthibi (Chairperson Risk Management Committee)

Approved / ~~Not Approved~~

 01/06/2016

Mr. S. Khanyile SG: ECDSD