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PROVINCIAL TREASURY CIRCULAR NO. 17 OF 2016

TO:

THE ACCOUNTING OFFICER: OFFICE OF THE PREMIER (MR T MDAKANE)
THE ACCOUNTING OFFICER: PROVINCIAL LEGISLATURE (MR L MWALE)
THE ACTING ACCOUNTING OFFICER: CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR GS NTOMBELA)
THE ACCOUNTING OFFICER: AGRICULTURE, RURAL DEVELOPMENT, LAND AND ENVIROMENTAL AFFAIRS: (MS S XULU)
THE ACTING ACCOUNTING OFFICER: ECONOMIC DEVELOPMENT AND TOURISM (MR JS MGIDI)
THE ACCOUNTING OFFICER: EDUCATION (MS MOC MHLABANE)
THE ACCOUNTING OFFICER: PUBLIC WORKS, ROADS AND TRANSPORT (MR KM MOHLASEDI)
THE ACCOUNTING OFFICER: COMMUNITY SAFETY, SECURITY & LIAISON (MR W MTHOMBOHI)
THE ACTING ACCOUNTING OFFICER: HEALTH (DR S MOHANGI)
THE ACCOUNTING OFFICER: CULTURE SPORT AND RECREATION (MR W MNISI)
THE ACCOUNTING OFFICER: SOCIAL DEVELOPMENT (MS NL MLANGENI)
THE ACCOUNTING OFFICER: HUMAN SETTLEMENTS (MR K MASANGE)

**THE CHIEF EXECUTIVE OFFICER: MPUMALANGA ECONOMIC GROWTH AGENCY (MEGA):
MR XGS SITHOLE**

THE CHIEF EXECUTIVE OFFICER: MPUMALANGA GAMBLING BOARD (MGB): MR B MLAMBO
THE ACTING CHIEF EXECUTIVE OFFICER: MPUMALANGA TOURISM AND PARKS AGENCY (MTPA): MR A SIBIYA
**THE ACTING CHIEF EXECUTIVE OFFICER MPUMALANGA REGIONAL TRAINING TRUST (MRTT):
MR R OOSTHUIZEN**

**THE CHIEF DIRECTORATE: FINANCIAL GOVERNANCE: PROVINCIAL TREASURY
(MS J BEZUIDENHOUT)**

**THE CHIEF DIRECTORATE: ASSETS AND LIABILITIES MANAGEMENT: PROVINCIAL TREASURY
(MS E VISSER)**

**THE CHIEF DIRECTORATE: SUSTAINABLE RESOURCE MANAGEMENT: PROVINCIAL TREASURY
(MR MADIKE)**

THE MFMA COORDINATOR: PROVINCIAL TREASURY (MS B GUNQISA)

INTERGRATION OF RISK MANAGEMENT INTO PERFORMANCE CONTRACTS OF SENIOR MANAGEMENT

1. LEGAL MANDATES AND THE RESPONSIBILITIES AND EXPECTATIONS OF ACCOUNTING OFFICERS WITH REGARD TO RISK MANAGEMENT

The general responsibilities of the Accounting Officer with regard to the risk management process is clearly stipulated in section 38(1)(a)(i) and section 51(1)(a)(i) of Public Finance Management Act (PFMA), No.1 of 1999 and Public Sector Risk Management Framework which serves as a source of reference with regard to Risk Management processes in the Public Sector, be it Provincial Departments or Public Entities.

2. PURPOSE

To enable the Accounting Officer / Authority to evaluate performance of senior management in managing risks to maximize the value created through Risk Management practices.

3. 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 standing agenda item in Management meetings.

4. DISCUSSION

4.1 HIGH LEVEL RESPONSIBILITY OF MANAGEMENT

To drive optimal benefits, Risk Management ought to be conducted in as 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:

- a) Non-compliance risks with key laws and regulations;
- b) Fraud related risks;
- c) Risk associated with the breakdown in key internal controls;
- d) Business continuity and disaster recovery plans;
- e) New risks that emerged during the reporting period; and
- f) Significant changes in current risk or risks that materialized during the reporting period.

High level responsibilities of Management should include:

- a) Executing their responsibilities as set out in the Risk Management Strategy;
- b) Empowering Officials to perform effectively in their Risk Management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;

- c) Aligning the functional Risk Management Methodologies and processes with the Institutional process.
- d) Devoting personal attention to overseeing the Management of key risks within their area of responsibility;
- e) Maintaining a co-operative relationship with the Risk Management Unit and Risk Champion;
- f) Providing Risk Management reports
- g) Presenting to the Risk Management and to the Audit Committees as requested;
- h) Maintaining the proper functioning of the control environment within their area of responsibility;
- i) Monitoring Risk Management within their area of responsibility.
- j) Holding Officials accountable for their specific Risk Management responsibilities.
- k) Maintaining functional risk profile within the Institution's risk tolerance (ability to tolerate) and appetite (risk that is willing to take);
- l) Implementing the directives of the Accounting Officer / Authority concerning Risk Management;
- m) Prioritizing and ranking risks in their area of responsibility to focus responses and Interventions on risks outside the Institution's tolerance levels;
- n) Benchmarking risks and risk mitigating activities
- o) Assessing the effectiveness of Risk Management within area of responsibility; and
- p) Developing and implementing a fraud risk response plan.

4.2 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 the framework of responsibilities and performance indicators. Evaluation of Management's effectiveness in Risk Management is vital to maximize the value add 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 processes in contributing to the Institutions goals and objectives. **The Accounting Officer / Authority should evaluate the performance of Management through the following and other relevant indicators:**

- a) Business Unit performance against key indicators, including comparisons of year-on year performance;
- b) Implementation of Risk Management action plans;
- c) Co-operation with the Risk Management Unit, Risk Management Committee, Risk Champion and relevant Stakeholders involved in Risk Management
- d) Quality and timelines of risk identification, assessment and reporting;
- e) Proactive identification of new and emerging risks;
- f) Absence of surprises;
- g) Year on year reduction in adverse incidents and realized losses;
- h) Eliminating of unauthorized expenditure, fruitless and wasteful expenditure and irregular expenditure;
- i) Reduction in fraud;
- j) Progress in securing improved Internal Audit and Auditor-General outcomes in regularity and performance audits,
- k) Implementation of credible Risk Management structures within their business unit;
- l) Service delivery performance and improvement;
- m) Improvement in efficiency ratios for service delivery; and

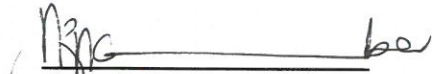
- n) Actual effectiveness of controls Instituted.

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. In order to achieve this, CMC 1: Strategic capability and leadership must be included in all Manager's performance agreements / contracts, with specific emphasis on the management of risks.

Your co-operation is appreciated.

Kind Regards,



MS NZ NKAMBA
HEAD OFFICIAL: PROVINCIAL TREASURY
DATE 13/3/2016