



Enquiries : Ms FM Shithelana X4425
Ref : MPT/13/4/4

PROVINCIAL TREASURY CIRCULAR NO. 18 OF 2016

TO:

THE MUNICIPAL MANAGER: GERT SIBANDE DISTRICT MUNICIPALITY: (MR C HABLE)
THE MUNICIPAL MANAGER: NKANGALA DISTRICT MUNICIPALITY: (MS M SKOSANA)
THE MUNICIPAL MANAGER: EHLANZENI DISTRICT MUNICIPALITY: (ADV H MBATHA)
THE MUNICIPAL MANAGER: CHIEF ALBERT LUTHULI LOCAL MUNICIPALITY: (MR VN MPILA)
THE ACTING MUNICIPAL MANAGER: DIPALESENG LOCAL MUNICIPALITY: (MR SL NETSHIVHALE)
THE MUNICIPAL MANAGER: GOVAN MBEKI LOCAL MUNICIPALITY: (MR MF MAHLANGU)
THE ACTING MUNICIPAL MANAGER: MKHONDO LOCAL MUNICIPALITY: (MR C MABUZA)
THE MUNICIPAL MANAGER: MSUKALIGWA LOCAL MUNICIPALITY: (MR S SHONGWE)
THE MUNICIPAL MANAGER: DR PIXLEY KA ISAKA SEME LOCAL MUNICIPALITY:
(MR PB MALEBYE)
THE MUNICIPAL MANAGER: DR JS MOROKA LOCAL MUNICIPALITY: (MR BS MAHLANGU)
THE ACTING MUNICIPAL MANAGER: EMAKHAZENI LOCAL MUNICIPALITY
(MS EK TSHABALALA)
THE MUNICIPAL MANAGER: EMALAHLENI LOCAL MUNICIPALITY: (MR T VAN VUUREN)
THE ACTING MUNICIPAL MANAGER: STEVE TSHWETE LOCAL MUNICIPALITY (MR SM MNGUNI)
THE MUNICIPAL MANAGER: THEMBISILE HANI LOCAL MUNICIPALITY: (MR ON NKOSI)
THE ACTING MUNICIPAL MANAGER: VICTOR KHANYE LOCAL MUNICIPALITY:
(MR MJ MAHLANGU)
THE MUNICIPAL MANAGER: BUSHBUCKRIDGE LOCAL MUNICIPALITY: (MR C LISA)
THE MUNICIPAL MANAGER: MBOMBELA LOCAL MUNICIPALITY: (MR N SEANEGO)
THE MUNICIPAL MANAGER: NKOMAZI LOCAL MUNICIPALITY: (MR MD NGWENYA)
THE ACTING MUNICIPAL MANAGER: THABA CHWEU LOCAL MUNICIPALITY:
(MR LM MOKOENA)
THE MUNICIPAL MANAGER: UMJINDI LOCAL MUNICIPALITY: (MR DP MSIBI)

THE ACCOUNTING OFFICER: OFFICE OF THE PREMIER (MR T MDAKANE)
THE ACTING ACCOUNTING OFFICER: CO-OPERATIVE GOVERNANCE AND TRADITIONAL
AFFAIRS (MR GS NTOMBELA)
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 62(1)(c)(i) of the Municipal Finance Management Act, No. 56 of 2003 and the Public Sector Risk Management Framework which serves as a source of reference with regards to Risk Management processes in the Public Sector, be it Municipalities and other government structures.

2. PURPOSE

To enable the Accounting Officer 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 risks 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.

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) Review of 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; Maintaining the proper functioning of the control environment within their area of responsibility;
- h) Monitoring Risk Management within their area of responsibility.
- i) Holding Officials accountable for their specific Risk Management responsibilities.
- j) Maintaining functional risk profile within the Institution's risk tolerance (ability to tolerate) and appetite (risk that is willing to take);
- k) Implementing the directives of the Accounting Officer / Authority concerning Risk Management;
- l) Prioritizing and ranking risks in their area of responsibility to focus responses and Interventions on risks outside the Institution's tolerance levels;
- m) Benchmarking risks and risk mitigating activities
- n) Assessing the effectiveness of Risk Management within area of responsibility; and
- o) 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 Institution's 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.

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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, is to integrate Risk Management into performance contracts of senior management. You are consequently requested to include Risk Management as a Core Management Criteria in the contracts of all managers in your Municipality.

Your co-operation is appreciated.

Kind Regards



MS' NZ NKAMBA

HEAD OFFICIAL: PROVINCIAL TREASURY

DATE: 31/3/2016