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# **Mpumalanga Provincial Government of Education Department**

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## **RISK MANAGEMENT POLICY**

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## **MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY**

### **EXECUTIVE SUMMARY**

Risk Management is a central part of the Mpumalanga Department of Education at a strategic management level. It is the process whereby the Department, both methodically and intuitively addresses the risk attached to activities with the goal of achieving sustained benefit within each activity and across the portfolio of activities. Risk management will be recognized as an integral part of sound Departmental management and is being promoted internationally and locally as good practice applicable to the public and private sectors.

In terms of Section 38 a (i) and 45 of the PFMA, Act 29 of 1999 this practice has been supported in conjunction with the Treasury Regulations Section 3.2

The Accounting Authority / Officer has committed the Mpumalanga Department of Education to a process of risk management that is aligned to the principles of good corporate governance, as supported by the Public Finance Management Act (PFMA), Act 1 of 1999 as amended by Act 29 of 1999.

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## MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY

### 1. OVERVIEW

#### 1.1 RATIONALE

It has been identified or recognized that no Department/institution can operate in a risk-free environment. Practicing risk management does not create an environment that is free from risks. The risk management process enables management to operate more effectively in an environment filled with risks.

#### 1.2 POLICY STATEMENT

This policy aims to fulfill the public/political performance expectations of the department and within the department's strategic operations; which should pursue opportunities involving some degree of risk. This policy gives fulfillment and due consideration to the balance of risk and reward, as far as is practicable and to optimise the rewards gained from the activities.

All employees of the Department have the responsibility of managing risks. Management is accountable to the Executive Authority, which provides governance, guidance and oversight. By selection 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.

Risk management is recognised as an integral part of responsible management and the Department therefore adopts a comprehensive approach to the management of risks. The features of this process are outlined in the Department's Risk Management Strategy. It is expected that all directorates, sections, operations and processes will be subject to the risk



## **MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY**

management strategy. It is the intention that directorates and sections will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Effective risk management is imperative for the department to fulfill its mandate, the service delivery expectations of the public and the performance expectations within the institution.

The realisation of the goals outlined in the strategic plan depends on all officials being able to take calculated risks in a way that does not jeopardise the direct interests of learners, teachers and other stakeholders. Sound management of risk will enable us to anticipate and respond to changes in the service delivery environment, as well as take informed decisions under conditions of uncertainty.

We subscribe to the fundamental principles that all resources will be applied economically to ensure:

- The highest standards of service delivery;
- A management system containing appropriate elements aimed at minimising risks and costs in the interest of all stakeholders;
- Education and training of all departmental staff so as to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and
- Maintaining an environment that promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.
- An entity-wide approach to risk management is adopted by the Department, which means that every key risk in each part of the Department shall be included in a structured and systematic process of risk management. It is expected that the risk management processes



## **MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY**

shall become embedded into the Departmental systems and processes, ensuring that our responses to risk remain current and dynamic. All risk management efforts shall be focused on supporting the Department's objectives. Equally, they must ensure compliance with relevant legislation, and fulfill the expectations of employees, communities and other stakeholders in terms of corporate governance.

### **1.3 KEY ACTIVITIES TO ATTAIN BASIC LEGISLATIVE AND BEST PRACTICE COMPLIANCE**

The Department's risk management shall encompass:

- Alignment of the Department' risk strategy and risk appetite
- Enhancing risk response decisions
- Reducing operational surprises and losses
- Identifying and managing multiple and across-Departmental risk
- Seizing opportunities
- Improving deployment of capital

*(Further information on the above points can be obtained from the Public Sector Risk Management Framework.)*

## **2. RESPONSIBILITIES AND STRUCTURES FOR MANAGING RISK**

### **2.1 Accounting Officer**

In terms of Section 38 of the PFMA, the accounting officer is responsible for development, implementation and maintenance of effective, efficient and transparent systems of financial and risk management and internal control.



## MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY

### 2.2 Management

Management is responsible for implementing risk management including the identification of risks and controls identified pertinent to the section under his/her control commensurate with the delegations set out in paragraph 5.1 of this policy.

### 2.3 Chief Risk Officer

- Formulate risk management policy/procedures on behalf of the Accounting Officers.
- Provide support tools/procedures to management.
- Identify key risks and developing common risk language.
- Plays a facilitating role in the risk management process.

### 2.4 Risk Management Committee

This Committee oversees risk management, approves the basic risk management principles, reviews their implementation and the appropriateness of the Department's risk management framework, with respect to risk strategy, it evaluates the basis on which the Department determines the overall risk tolerance and the risk appetite for the most significant risk taking activities and it reviews the Department's integrated portfolio risk management activities.

- Plays an oversight role in the risk management process within the Department of Education.
- Develops and implements risk management methodologies and frameworks within the Department and provides the training on these tools.



## MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY

- Consolidate inherent risk assessments, build a risk profile for the Department as a whole and ensure the development of response strategies to mitigate transversal risk.
- Provision of transversal risk management software and maintenance of data platform for the Department.

### **2.5 Internal Audit**

Internal Audit plays an important role in the evaluation, examine and reporting on and recommending improvements to the adequacy and effectiveness of risk management quality of performance as part of their regular duties or upon special request of senior management, which is approved by the audit committee. Provide independent assurance services on the controls implemented to mitigate risks.

### **2.6 External Audit**

Provides assurance to stakeholders that financial statements are fairly presented and compliant with relevant laws and regulations.

### **2.7 Audit Committee**

Provide an oversight role in the Department's risk management process.

### **2.8 Other Staff**

Risk management is every member's responsibility for carrying out the objectives of the Department and therefore shall be an explicit or implicit part of everyone's job description. Employees are responsible for communicating risks such as problems in operations, system for financial, non-financial information and internal control for non-compliance with the code of conduct with other violations or illegal actions.



## **MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY**

### **3. BENEFITS OF RISK MANAGEMENT**

Effective risk management shall assist the Department to achieve its performance and service delivery targets, and to reduce the potential loss of resources.

Risk Management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Value is maximized when management sets strategy and operation objectives to strike an optimal balance between growths and return goals related risks, and efficiently and effectively deploys resources in pursuit of the Department.

Risk management will help the Department to achieve its performance and service delivery targets and prevent loss of resources. It will help ensure effective reporting and it helps ensure that the Department complies with laws and regulations, avoiding damage to its reputation and other consequences. In summation, or to sum it all up, it helps the Department get to where it wants to go and avoid pitfalls and surprises along the way.

### **4. THE RISK MANAGEMENT PROCESS**

The risk management process in the Department shall entail:

#### **4.1 Event Identification**

The Department shall identify events that may hinder the delivery of departmental goals. It shall gather information on these in order to understand the risk and to define their characteristics.





## **MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY**

It shall identify the risks within the specific risk management context concerned and with due consideration of the Departmental resources involved and the objectives or outputs to be achieved.

Risk identification shall result in a documented list of risks where each risk is identified in principle and described in order to capture its qualitative characteristics.

### **4.2 Frequency of conducting risk assessments**

Risk assessments shall be conducted at least annually. However, ongoing assessments are encouraged. Written approval must be obtained from the Accounting Officer if the Department fails to comply with this condition.

The controls implemented to mitigate risks shall be regularly assessed, analysed and reviewed by the risk owner to evaluate if the control is still adequate to mitigate the risk.

The level of the risk owner shall be equivalent to that of the Responsibility manager.

### **4.3 Analyzing Risks Identified**

All risks shall be categorized in terms of the standardized provincial categorization commonly referred to as the risk universe and consistent with the department's risk tolerance. This will ensure that management considers external and internal, as well as financial and non financial factors that influence the department's policy and management agenda. Identifying major trends and their variation over time is particularly relevant in providing early warning.

### **4.4 Evaluating Risks Identified**



## MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY

Risk assessment allows a Department to consider the extent to which potential events might have an impact on achievement of objectives.

Management shall assess events from *two* perspectives, likelihood and impact and using a combination of *qualitative* and *quantitative* methods.

The positive and negative impacts of potential events shall be examined, individually or by category, across the Department. Potentially negative events shall be assessed on both an inherent and a residual basis.

### 5. MANAGING THE RISKS IDENTIFIED

#### 5.1 Delegating Risks to Appropriate Levels

To ensure accountability, responsibility and compliance to the risk management process, the management of risks are delegated as follows:

- **Strategic Risks** - are delegated to the relevant Program Managers.
- **Operational Risks** – are delegated to the Responsibility Managers.
- **Compliance Risks**- are delegated to the Responsibility Managers.
- **Reporting Risks**- are delegated to the Responsibility Managers.

#### 5.2 Risk appetite

Risk appetite is the amount of risk our Department is willing to accept in pursuit of value.

Management shall consider the Department's risk appetite as it aligns the Department, people and processes, and designs infrastructure necessary to effectively respond to and monitor risks.



**MPUMALANGA DEPARTMENT OF EDUCATION  
RISK MANAGEMENT POLICY**

**6. Monitoring**

Risks that have been identified, assessed and treated shall be subject to continuous monitoring and review in order to ensure that the results of the risk treatment approach are and remain acceptable.

The risk management cycle shall be repeated annually.

The monitoring of risk management process shall be effected through ongoing activities and/or by separate evaluations.

**6.1 Ongoing activities**

Ongoing activities include regular management and supervisory activities, variance analysis, comparisons, reconciliations and other routine actions. The Internal Control component in the Department plays an integral part in the monitoring process. Internal control will test the effectiveness of controls implemented to mitigate risks and report its findings and make recommendations to management by means of ongoing internal control inspections.

The Department's Risk Management components shall develop, implement and advise on risk management systems, facilitate risks identification, the identification of control mitigating risks and control improvement and quality assures all risk management activities within the Department.

Management shall test controls which it implements by performing control self assessment tests to evaluate the effectiveness of controls implemented to mitigate risks.



## **MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY**

### **6.2 Separate Evaluations**

Separate evaluations performed by the Internal Audit directorate and/or Auditor-General shall provide an independent assurance and review on the effectiveness of controls implemented to mitigate risks.

## **7. COMMUNICATING RESULTS**

The Chief Risk Officer shall compile and present a consolidated risk profile of the Department to the Accounting Officer and the Risk Committee bi-annually for submission to the Audit Committee.

Results of risk assessments shall be communicated to the process and risk owners on an ongoing basis (minimum quarterly).

Management shall make available all reports used for planning, decision making and any other purpose, to the Chief Risk Officer for effective management of the Risk Management process, if so requested by the Chief Risk Officer.

## **8. IMPLEMENTATION**

The risk policy statement shall be reviewed annually to reflect the current stance on risk management.

Every employee has a part to play in this important endeavor and we look forward to working with you in achieving these aims.



**MPUMALANGA DEPARTMENT OF EDUCATION  
RISK MANAGEMENT POLICY**

This policy is implemented with effect from 1<sup>st</sup> August 2014

HEAD OF DEPARTMENT:  .....

DATE: 12/9/14- .....





## MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY

### ANNEXURE KEY DEFINITIONS

#### **Risk Categories**

As the risk environment is so varied and complex it is useful to group potential events into categories. By aggregating events horizontally across a department and vertically within operating units, management develops an understanding of the interrelationships between events, gaining enhanced information as a basis for risk assessment.

**The main categories to group individual risk exposures are as follows:**

**Reputational Risk** – the risk caused by damage to the organisation’s reputation, name or brand. Such damage may be a breakdown of trust, confidence or stakeholder relationships. Reputational risk may arise as a result of other risks manifesting and not being mitigated.

**Compliance Risk** – this risk is defined as the risk that contracts the organisation enters into with its counterparties will not be enforceable, especially with respect to events of default by the counterparty, and the failure to understand or effectively apply legal and regulatory principles and practices. It also relates to the organisation's compliance with applicable laws and regulations.

**Technology Risk** – loss of information systems or failure to deliver agreed stability, functionality and data integrity. Management may also not adequately plan for, manage and monitor the performance of technology related projects, products, services, processes, staff and delivery channels.

**Procurement Risk** – inadequate selection or engagement process for suppliers or their sub-optimal performance, failure by governmental agencies or service centers to deliver the agreed quality on time and within budgeted constraints.



## MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY

**Service Delivery Risk** – every governmental body exists to provide value for its stakeholders, the risk arose if the appropriate quality of service is not delivered to the citizens.

**Human Resource Risk** – failure to recruit, develop or retain employees or manage employee relations.

**Strategic Risk** – Strategic objectives are high-level goals aligned with and supporting the Department's mission/vision. Strategic objectives reflect senior management's choice as to how the Department/entity will seek to create value for its stakeholders. Events which could have a negative effect on the achievement of the Department's strategic and operational objectives are referred to as strategic risks.

**Security Risk** – relating to illegal or improper acts, fraud, corruption, and prevention of loss of an organisation's assets or resources, whether through theft, waste or inefficiency. Where the safeguarding concept applies to the prevention or timely detection of unauthorised acquisition, use, or disposition of the organisation's assets.

**Business Continuity Risk** – events that could lead to the disruption of processes and services in abnormal conditions. This includes the possible interruption of operations at the onset of a crisis to the resumption of critical activities.

**Financial Risk** – it refers to risks and opportunities affecting financial value arising out of potential movements in the prices of financial market instruments. Some of these movements have a direct impact in that they may affect the value of financial assets or liabilities on the balance sheet of an organisation. Other movements in the prices of financial market instruments have an indirect impact in that they affect the cash flow, liquidity, budget allocations, and the operating expenses as a result of an adverse movement in market variables such as prices, currency exchange rates and interest rates.



## MPUMALANGA DEPARTMENT OF EDUCATION RISK MANAGEMENT POLICY

### **Operational Risks**

Operational objectives pertain to the effectiveness and efficiency of the Department's operations, including performance and profitability goals and safeguarding of resources against loss. The objectives vary based on management's choices about structure and performance. Events that may affect the achievement of the directorates' operational objectives are referred to as operational risks.

### **Reporting Risks**

Reporting objectives pertain to the reliability of reporting. They include internal and external reporting and may involve financial or non-financial information. Events that may affect the achievement of the Department's reporting objectives are referred to as reporting risks.

### **Compliance Risks**

Compliance objectives pertain to adherence to relevant laws and regulations. They are dependent on external factors, such as environmental regulation, and tend to be similar across all entities in some cases and across an industry in others. Events that may affect the achievement of the Department's compliance objectives are referred to as compliance risks.

### **Inherent risk**

The risk to an entity in the absence of any actions management might take to alter either the risk's likelihood or impact.

### **Residual risk**

The risk that remains after management responds to risk.

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