

The Mpumalanga Department of Finance

Leading 'risk management' through exemplary practice.¹

Final

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Introduction

On the 12th November 2010, the Mpumalanga Department of Finance was recognised, at the 2010 Annual Public Sector Reporting Awards, as having produced the best annual report for the year 2008-2009. Commenting at the awards ceremony, Professor Dieter Gloek, Executive President of the Southern African Institute of Government Auditors (SAIGA), stated that “...it is praiseworthy that the Department of Finance has taken accountability to new levels...percentages of 95 and above are far beyond the limits of a distinction and a great achievement, no matter from which perspective you look at it.”²The added effort for excellence in governance arose because of a commitment to setting an encouraging example to other Provincial Departments and a consistent willingness to engage with audit queries³. The Mpumalanga Department of Finance, given its strategic oversight role with the Provincial system of government, simply ‘had to be exemplary’ and keep to the highest standards, even if this meant improving on its positive audit record.

Just as there are individual stories in the journey towards excellence, the general picture painted in this case is one of ‘we did’ rather than ‘I did’. Underlying the overall collective and team ethos towards doing better is a level of humility in action. As put forward by an official, “... *we never thought of what we are doing as being innovative, we simply ensured that we did our jobs to the best of our ability*”The path towards good practice in Risk Management was not always smooth and required constant adjustment and learning on how best the Department manages its risks, and that risk actions be integrated within the core of the Department’s work, rather than stand as something outside of the work activities of different sections and units. This case traces the story of the responsible team as it moved the Department from compliance towards excellence in the risk management function and responsibility⁴.

Overview of the Department of Finance

The desire to be a positive example in all that it does is rooted in the broader transversal mandate of the Mpumalanga Department of Finance. The responsibilities established, per relevant legislation, finds expression in four programme areas: 1) Administration, 2) Sustainable resource Management, 3) Assets and Liabilities Management, and 4) Financial Governance. Programmes 2 to 4 stand at the core of the Departments overall transversal role within the Province which, according to the Departments mission is ‘*the equitable allocation and optimal utilisation of provincial resources to ensure a quality and better life for all*’. This is done through ‘quality financial advice and support to departments, public entities and municipalities’, ‘efficient financial management and fiscal discipline’ and ‘effective monitoring of resource utilization’.

² Department of Finance, Media Statement, 2010

³The contents of the Case Study is primarily based on a Focused Group Interview with key champions in Risk Management of the Department of Finance in Mpumalanga, 24th March 2012

⁴ The decision to draft a Case Study on Risk Management of the Department of Finance in Mpumalanga emanates from the self-evaluation score the Department achieved on the Management Performance Assessment Tool of the South African Government. A score of four (4) was achieved, hence suggesting that the Department not only complied with relevant regulations, but was innovative in the manner in which it conducted the Risk Management function.

To achieve its overall mission and showcase resource utilisation leadership in the Province, Departmental officials are aware of the demonstration value of their internal support functions located in Programme 1. This programme area is 'responsible for the political, financial and administrative management of the Department'. The core element in this support process is rendering 'efficient and effective management accounting, financial accounting, supply chain management and risk management support'. Risk management within the Department of Finance is, both an internal function and an element of external responsibility that is exercised as part of its support and oversight mandate.

The budget of the Department of Finance is over R 250 million and it employs approximately 350 people, 50% of them in the Administration to support the work of officials positioned in line sections headed by Executive Managers. The Department has a Chief Financial Officer and an Internal Audit Unit that reports directly to the Audit Committee and the Head of Department. The Audit Committee is made up of four individuals appointed from outside of Government on the basis of their capacity to exercise oversight over the Department's audit and risk activities through quarterly Audit meetings. The Risk Management function is operationally located under the authority of the Chief Financial Officer.

Risk Management Policies

The mandate for Risk Management emanates from the Public Finance Management Act (1 of 1999) as amended, which stipulates in Section 38 that the Accounting Officer of a Department has and maintains 'effective, efficient and transparent systems of financial, risk'⁵. Treasury regulations furthermore provide, in Section 3.2.1 that 'the accounting officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the institution. A risk management strategy must be clearly communicated to all officials to ensure that the strategy is incorporated into the language and culture of the department.'⁶To support of all Government Department and entities, National Treasury has established a Public Sector Risk Management Framework which provides a number of tools to assist Department in fulfilling their risk management obligations. The Framework outlines the risk management process, the activities and obligations that it entails and the roles and responsibilities of individuals within Departments.⁷

The Department has adopted an internal Risk Management Policy which complies with the regulatory and operational context, and which is revised as needed. The latest version was revised in November 2011 and signed off, after review, by the Head of Department. The policy has been shaped to fit the context of the Department and provides for the establishment of the Risk Management Committee and the roles and responsibilities of relevant units and individuals in the Department.

In affirming the importance of Risk Management for the Department's work, the policy provides that all officials must '... be aware of the risk management principles and the

⁵ National Treasury, Public Sector Risk Management Framework, April 2010

⁶ National Treasury Regulations

⁷ National Treasury Website

benefits of risk management and integrate risk management in their day-to-day operations'.⁸ Although the policy conforms to the requirements of National Treasury, the language used places the burden of responsibility on managers and all officials within the department. Of particular significance is recognition of the inter-relationship between different internal policy instruments. The Risk Management Policy links directly to the Fraud Prevention Policy. Within the Fraud Prevention Policy instrument it is noted that all Managers are responsible for, amongst others, appointing '...appropriate independent functions to assist in identifying risks...' It furthermore provides that all employees are '...responsible to be aware of the risks related to and the symptoms of fraud and corruption'.⁹

Establishing the required structural capacity

Although Risk Management has always been defined as an area of focus that requires dedicated attention, the Department has, over the past few years, fulfilled its obligation, without having the required internal structure. As explained by the Senior Manager: Internal Audit¹⁰:

...the challenge we have as a Department is that we don't have a Risk Management Unit in the structure. We have this in the new proposed structure, but in the interim we have assigned someone¹¹ as the Risk Officer...and one other official with the function of assisting with risk management...and reporting and evaluating. I think this is good, because we don't have a structure, but we have assigned people with the responsibility."

In the absence of a formalised structure for Risk Management, the CFO, supported by Internal Audit, took it upon themselves to champion risk management as part of the responsibility of ensuring that the Department is fully compliant with regulations and is able to prevent unnecessary losses due to poor controls. An important step in this process was to locate the risk assessment practice as an element of the Department's Fraud Prevention Policy and Plan. The Fraud Policy, adopted in 2009, designates Internal Audit as having to '... assist management by conducting independent reviews on the adequacy and effectiveness of internal controls and recommending corrective action and also assisting in the identification of risk'. This policy was further detailed in the Fraud Prevention Plan, which provides that '...risk assessment also serves as a basis for the annual work plan of the Internal Audit section'.

As a result of the collective effort of Internal Audit and the Chief Financial Officer, the Department now has a fully functional Risk Management Committee. Under the guidance of this structure, the Department conducts annual risk assessments, produces and updates its Risk Register and monitors actions and ensures regular reporting. Although officials view their progress as 'doing our job' there is a lot to learn from the approach taken, the manner in which leadership has been exercised, the policies and strategies established, and the way resources have been utilised.

⁸ Department of Finance, Risk Management Policy, March 2011.

⁹ Department of Finance, Fraud Prevention Policy, December 2009

¹⁰ Interview, 24th July 2012

¹¹ Name withheld for confidentially purposes

Implementing Risk Management

In shaping the relevant policy instruments, officials were aware of the danger that the policy could remain an intention, and never see implementation action. To avoid this, the Department adopted a feasible strategy and implementation plan. Building on National Treasury frameworks the strategy outlines details on the Risk Assessment Framework and the manner in which the Department would engage in designated risk areas, as per the established rating system of National Treasury. To affirm a collective approach, the strategy was approved and affirmed by the Risk Officer, the Chairperson of the Risk Committee, the Chief Finance Officer and the Head of Department (Accounting Officer). The strategy for operationalizing the process for assessing and ranking risks, together with the actions that would be engaged upon to manage these is contained in the Implementation Plan¹².

The Implementation Plan was prepared by the designated Risk Officer and serves to detail the work that would be done within a financial year on the management of risks. The value of the plans resides in the manner in which it systematically outlines the actions that would be taken within the financial year to ensure delivery on the Risk Management Policy and Strategy. The final step in the process is the annual Risk Register that serves as the instrument for the development of actions and for monitoring implementation on a quarterly basis.

In the word of a Departmental Official, we *“complied with National Treasury frameworks, but we did it in a way that was relevant for our Department”*. It was around the 2008 - 2009 financial year that the Department focused additional effort on ensuring that it moved beyond compliance to develop a risk management culture across the Department. As part of the process, the Risk Management Committee arranged annual Risk Assessment workshops and relevant awareness sessions with all staff in the Department. Where adaptations needed to be made to the tools provided by National Treasury, these were made. An official involved in the process noted that *“... we have adapted the template of National Treasury slightly ...we have asked the question about the sources of the risk and the root causes and the consequences... it differs slightly ...we have the action owner and the time frame for implementation.”*

In the initial period, the focus was on securing Senior Managers' active involvement and on retaining them as the main contact channels for the risk management process. However, the team leading the process recognised that, even with the commitment of Senior Managers, it was difficult to sustain the process as the individuals were often busy the wide range of responsibilities that fall within their terrain of work. The circumstances faced during the initial period was characterised as follows:

...we found a situation with Risk Management previously where we had Senior Managers as Risk Champions and it did not work. Senior Managers were always busy, so we didn't get lot of cooperation from them and to get information out of them was very difficult...

¹² Department of Finance, Risk Management Implementation Plan, March 2012

After reflecting on the challenges, a decision was made to appoint officials with more time to serve as champions within all of the relevant units and sections. Reflecting on this change in approach, the designated Risk Officer noted that:

...this strategy has helped us to overcome many of our problems. These are usually managers who are in the office and who know their sections better. It's easy to work with them because they are there all the time, unlike the Senior Managers who are often out for meetings. It's easy to get hold of them (current champions) and have discussions with them.

The guidelines established by National Treasury provide that a Risk Champion is a 'person with the skills, knowledge, leadership qualities and power of office required to champion a particular aspect of risk management'. The team leading the process noted a general turnaround in efforts when Risk Champions were appointed from within Units. No longer were they reliant on Senior Managers for information purposes and to ensure that appropriate reports are generated.

In addition to the approach of establishing a more creative strategy for choosing Risk Champions the Department created wider internal awareness of the centrality of risk and its proper management. Training and awareness workshops were held regularly with officials in the Department. Previously, the Department arranged a one day annual event for establishing areas of risk and the management action needed. This approach was inadequate and was changed to a five day process to ensure deeper reflection and engagement from all sections and units in the Department. With a more in-depth look at risk, officials became more aware of the process and a level of internal excitement was created by the exercise.

As it did not have a dedicated internal structure, the Department designated a motivated individual as the Risk Officer. Rather than allocating the responsibility to senior officials who were overloaded with responsibilities, a young energetic and committed official was chosen as the Risk Officer. In support of the individual's effort, he was subject to on-going mentorship and guidance from other managers within Internal Audit and Finance. This method served to ensure that the operational aspects of Risk Management are engaged with on a day to day basis, relevant meetings of the Risk Committee are held and reports are generated as required. Reflecting on the success of the approach, a Manager within Internal Audit explained as follows:

We make a comparison with the previous year and I can comfortably say that the risks areas of the department have gone down. Controls have been implemented and we also do an assessment when we do our Audit plans. Based on the risks identified, we decide which sections we are going to be auditing.

The success of the approach established hinged on a range of factors, including the leadership culture within the organisation, the commitment to empowerment, the creative use of limited resources and the reporting and monitoring strategy established.

Active Leadership in Risk Management

The approach of empowering officials to be part of the risk assessment and management process took place in an environment that recognises that active leadership needs to be demonstrated throughout the process. In the words of a Manager, “...we were always fortunate that we have a good leader who takes a keen and proactive interest in what we do”. Even outside of the formal meetings of the Department, the Head of Department would engage with Internal Audit and the designated Risk Officer on matters of concern. The culture of the Department is one of openness and often a junior official can engage directly with the Head of Department, an Executive Manager and the Chief Finance Officer on matters of concern.

The Risk Management Committee has worked towards ensuring that responsible managers are informed and are central to the consultative and reporting process. Senior Managers within units and sections have to sign off on reports related to the management of risks and hence remain engaged in the process. In the words of one of the involved officials:

...when we finalise the risk assessment, Senior Managers are there. They agree with the action plan and the person responsible for each action and they sign off on the risk register with us. The Senior Managers are also consenting to the Champions being responsible for the risk assessment process, they also sign off the evaluations ... this approach also serves to free the Senior Managers up as they have other responsibilities. We know that they are stretched and ours is to support them.

Beyond the work of Risk Champions, Senior Managers are engaged with in regular Management Committee Meetings. In these meetings Internal Audit and Risk Management remain standard agenda items. Discussions on the inputs from Internal Audits serve to ensure that Senior Managers remain accountable for the risk assessment and management process. There is also direct engagement with the Head of Department and Chief Finance Officer on areas of concern and where higher level of intervention is required.

Within the frameworks established for Risk Management, reports are also presented during the Quarterly meetings of the Internal Audit Committee. As risks and the manner in which there are managed are fundamental to ensuring that the Department retains clean audits, the Audit Committee has taken a keen interest in the reports presented and engages in discussions on the adequacy of control and measuring take to mitigate the risks faced. It is noted that “... usually the Audit Committee would want the manager responsible for a particular area to be in the meeting to answer questions they might have on controls or weaknesses identified...”.

The demonstration of active leadership on risks was particularly evident after the 2008-2009 Auditor General’s report that raised concern on the number of individuals that held business interest outside of the organisation. To manage this, the leadership actively worked with Risk Management to ensure that conflicts of interest are recognised and that managers complete the relevant disclosures, as required by regulations. Since this demonstration of active leadership, the number of individuals in the Department with

outside interest has declined substantively. All of the designated individuals in the Department have since completed their financial disclosure forms.

Leadership is also demonstrated at the political level and the responsible Member of the Executive Committee (MEC) has on a number of occasions demonstrated interest by inquiring on the status of risk management in the Department. As a result of the active inquiry of the MEC, reports have been presented to advise on development and to assure the MEC that the Department is exemplary in its actions. The MEC has also demonstrated active interest by ensuring that she is briefed directly and independently on Internal Audit matters by the Chairperson of the Audit Committee.

Capacity and Empowering for Risk Management

An empowerment approach permeated all elements of the way that the Department approached risk and its management. At the core of the strategy and plans was ensuring that the Department's officials were aware of the importance of risk identification and management to their day to day work. To this end, substantive attention was focused on creating internal awareness through a series of workshops. Central to the approach was building the capabilities of Risk Champions within Units. To this end the Risk Officer in the Department arranged a number of workshops with designated Champions. On reflecting on the value of the workshops, an official noted that

...there was a situation where people were doing business with government and our workshops served to clarify this issue ...we explained to them why this was unfair and this gives officials an unfair advantage as they have privileged access to information. As a result conflict of interest has reduced substantively and if you look at the Auditor-Generals report we only have one or two people. Before this, there were a few more. People actually resigned from companies ...

Workshops were arranged on a quarterly basis and incorporated presentations on fraud prevention, anti-corruption measures and the Public Service Code of Conduct. In addition to these capacity development workshops, the Risk Officer also conducted awareness workshops with all officers in the Department. As Risk Champions were members of the Risk Management Committee, efforts were focused on a team approach wherein each individual would actively work towards ensuring that the principles of risk management permeate the Department.

Of particular significance to the approach established was the efforts focused on guaranteeing that a non-hierarchical approach be used in managing risks and in the work of the Risk Champions. This approach is reflected in the adoption of the Risk Management Committee Charter, which provided, amongst others things, that for the purposes of '...the functioning of the Committee, in the event that the members of the Committee are of a more junior rank than the management that they request to appear before them, the traditional rank hierarchy in the Institution shall not apply. This implies that in the context of the functioning of the Committee the Committee members will enjoy greater

power than the management although the members themselves may be of a lower status'¹³.

Even outside of the formal policy on the oversight authority of the Risk Management Committee, the Mpumalanga Department of Finance retained a non-hierarchical approach to the work. The Risk Officer and other officials often freely engage with managers, including the Head of Department on matters of concern and importance within the risk assessment and management process. The active approach to empowering officers to take responsibility is also reflected in the capacity development approach of the Department. Even within the framework of limited funds, Internal Audit has consistently ensured that staff members receive outside training and participate actively in relevant learning forums established in the Province. The Risk officer attends meetings arranged to exchange information and knowledge within the Province as part of an established Risk Management Forum.

The commitment to empowerment and capacity development is very vividly reflected in the career path of the currently designated Risk Officer. Although senior in terms of responsibility, the Risk Officer joined the Department in 2004 as an Intern. Since joining he worked in different positions in the Department, gaining insights on the work of the Finance Section before being designated with the responsibility for Risk Management. Even as he recognised the significance of the responsibility he carried, he noted that the Department has not yet formalised a structure for Risk Management and that his work has served to ensure that all of the necessary work is in place and the proper foundations have been established. When reflecting on the experience, the Official spoke very fondly of all that he learned and the active mentorship he received from all, particularly those within the Internal Audit Unit of the Department.

Creatively using Limited Resources

Outside of having a formal structure for Risk Management, the Department demonstrated creativity in ensuring that compliance with Treasury requirements on Risk Management, and that the necessary work unfolds as expected. With no direct budget set aside for the work, the Risk Officer and the Risk Committee worked with the Chief Financial Officer and others to leverage resources that could be used for awareness process and for the workshops.

A constant and consistent element of the strategy and plan was to keep the exercise simple and focused. To this end, the Risk Committee and Risk Officer actively utilised a simple assessment and reporting framework. Rather than spread the process for producing the required annual Risk Register, the approach was to have workshops over a five day period. These workshops served to ensure that the relevant officials could be targeted and that at the end of the period a comprehensive report could be produced on the risks that the department faces. As one Official notes:

When we started in the department we use to have one day risk assessment workshop, but we found that this was not adequate and now this process is

¹³ Department of Finance, Risk Management Committee Charter, March 2012

done over five days. In this format we find that we can deal with strategic risks and operational risks.

Even though the Department had access to the electronic system established by Treasury, it chose to use a manual system for assessing risk and for identifying actions that need to be taken to lower risks or ensure that they are appropriately managed. One of the officials said that *“the system of Treasury is slow because of the internet connection and we preferred the manual system”*.

To ensure that the Department delivered on its responsibilities, it was necessary to request individuals to work beyond their designated formal roles. In the absence of an approved structure for Risk Management, the CFO requested Internal Audit to assist with the process of risk assessment and also designated one of its own officials as the Risk Officer of the Department. This process was made easy because the Department actively works at attracting and retaining bright individuals with good prospects within the broader public service.

Creating the Future

The Department and the officials involved in Risk Management have succeeded in creating excitement in an area of work that is often not seen as core to the work of officials. The risk management culture has permeated the organisation and is incorporated as a key element in the Annual Performance Plan (APP) of the Department.

To deliver on the risk management mandate, in the context of limited internal capacity, required that there be an active internal partnership approach between the Finance Section and Internal Audit. Whilst the risk functions falls under the overall authority of the CFO, Internal Audit worked closely with the appointed Risk Officer to review the policies, plans and actions to ensure that the Department assessed and manage identified risks.

As a result of proactive intervention the numbers of high and medium level risks have decreased through the active procedures established within the risk assessment process. Through the annual awareness and risk assessment process, the Risk officer and Committee established a deeper culture on the management of risk, resulting in the Department being able to make the claim that the management of risks has been mainstreamed.

The foundations and actions needed to ensure that the Department sustains a clean audit and is ‘exemplary’ in policies and actions have been established through cooperative and empowering actions on the part of its leaderships. Direct mentorship and capacity development collectively serve to create a wider capacity and may have, perhaps unintentionally, created a possible pool of candidates for the anticipated formalised position earmarked for a Risk Management Unit.

Rather than sit-back and contend that Risk Management requires additional capability, individuals acted with proactive foresight and demonstrated that cooperative collegial action can make a difference and that commitment are central to a successful initiative. A

systematic approach to policy development and planning also served to ensure that decisions are implemented and that there is follow-through on implementation and reporting on risks that needed to be managed.

Even as Internal Audit contributed to the overall development of capacity for Risk Management in the Department, careful attention was focused on ensuring that the unit continued to exercise independence from formal implementation activities, in a manner that ensured that it could still provide a sound and independent internal audit on how the Department was managing its risks. The formally approved strategy for overcoming hierarchy in risk management was well balanced, as the CFO serves as the Chairperson of the Risk Committee.

Conclusion and Good Practices

Even as the approach and strategies that unfolded on risk management mirrored the overall performance culture of the Department of Finance, the success achieved in the area continues to serve as a means for strengthening the organisation and is an added demonstrator of leadership through ‘exemplary’ practice. As custodian of the Provincial Budget process, which incorporates leading the Provinces Risk Management function, the Department simply had to lead in its risk management effort. This overarching driving motivation served to energise individuals and the leadership into action.

On reflecting on the experience, the central and perhaps most strategic of interventions was the deepening of Risk Management through the engagement of Risk Champions within Units who could serve to ensure that the practice of risk assessment and management were entrenched in the Department. Closely linked to this was the partnership approach that emerged between Internal Audit and the Chief Finance Officer, as a consequence of which a young energetic individual was designated with the responsibility and demonstrated value as part of his own career aspirations.

A key element of success often resides in the added effort required to get ‘job gets done’. The involved individuals did not perceive their actions as contributing to success until they reflected on this during the interview process for the case study. Rather than spend time focusing on the best approach, they simply acted in a manner that upholds the values of the Department the vision of being a ‘...dynamic department leading in service excellence’.

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