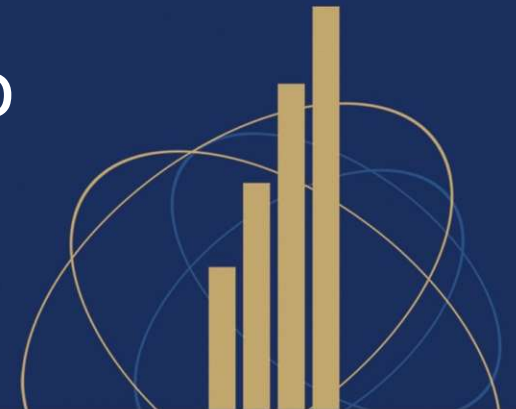




Does risk management add value to
our organisations or is it just a
compliance?

MR. AM CHIBI

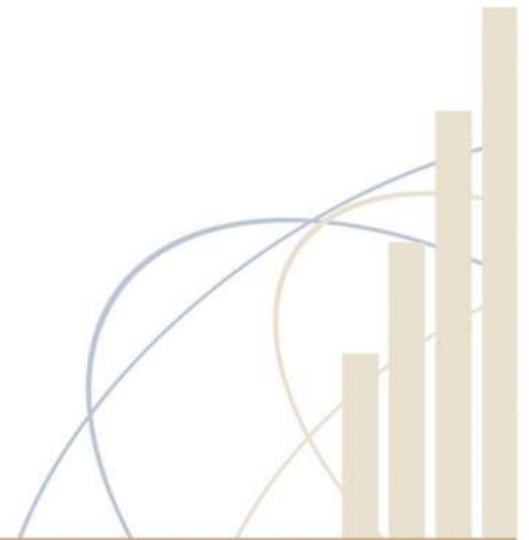


CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers

www.cigfaro.co.za

SAQA Recognised Professional Body

RISK MANAGEMENT: A NECESSARY EVIL OR A VALUE-ADDED PROCESS?



RISK MANAGEMENT DEFINITION

ISO 31000: Risk management is a systematic process to identify, assess, and mitigate risks that could impact the achievement of an organization's objectives.

Committee of Sponsoring Organizations (COSO): Risk management is a process, affected by the municipal council, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

RISK MANAGEMENT DEFINITION

Institute of Risk Management (IRM): Risk management is the process by which organizations methodically address potential threats and opportunities to achieve their objectives.

Australian/New Zealand Standard AS/NZS 4360: Risk management is the culture, processes, and structures that are directed towards realizing potential opportunities while managing adverse effects.

RISK MANAGEMENT DEFINITION

These definitions emphasize that risk management is:

- ✓ A systematic and proactive process
- ✓ Focused on achieving organizational objectives
- ✓ Concerned with identifying and managing both threats and opportunities
- ✓ Integral to strategy setting and decision-making
- ✓ Aimed at creating value for the organization

Types of risks:

Financial, operational, strategic, compliance, and reputational.



The Compliance Perspective

Regulatory requirements: overview of relevant laws, regulations, and standards (e.g., MFMA, ISO 31000, COSO).

1. **Primary goal:** Meet regulatory requirements and avoid penalties.
2. **Focus:** Identifying and mitigating risks to ensure compliance with laws, regulations, and standards.
3. **Scope:** Typically limited to specific regulatory requirements or industries.
4. **Risk assessment:** Focuses on identifying risks that could lead to non-compliance.
5. **Risk mitigation:** Implements controls and procedures to ensure compliance.
6. **Metrics:** Measures compliance with regulations and standards.

The Value-Added Perspective

1. **Primary goal:** Create value for the organization by identifying and managing risks that impact strategic objectives.
2. **Focus:** Identifying and managing risks that impact the organization's ability to achieve its goals and objectives.
3. **Scope:** Holistic approach, considering all types of risks that could impact the organization.
4. **Risk assessment:** Focuses on identifying risks that could impact strategic objectives, as well as opportunities for growth and improvement.
5. **Risk mitigation:** Implements strategies to mitigate risks and capitalize on opportunities.
6. **Metrics:** Measures the impact of risk management on strategic objectives, such as increased revenue, improved efficiency, or enhanced reputation

COMPLIANCE VS VALUE ADD RISK MANAGEMENT

KEY DIFFERENCES:

- ✓ **Focus:** Compliance-focused risk management is reactive, focusing on avoiding penalties, while value-added risk management is proactive, focusing on creating value.
- ✓ **Scope:** Compliance-focused risk management is typically limited to specific regulatory requirements, while value-added risk management takes a holistic approach.
- ✓ **Metrics:** Compliance-focused risk management measures compliance, while value-added risk management measures the impact on strategic objectives.

By adopting a value-added risk management approach, municipalities can move beyond mere compliance and create a competitive advantage by managing risks that impact their strategic objectives.

Overcoming Common Challenges

- ✓ Integrating risk management into existing processes and culture.
- ✓ Securing buy-in from stakeholders, including employees and executives.
- ✓ Measuring the effectiveness of risk management efforts.

VALUE ADD RISK MANAGEMENT

Establish a Risk Management Framework:

- ✓ Develop a risk management policy and framework that outlines the municipality's approach to risk management.
- ✓ Define risk management roles and responsibilities.
- ✓ Establish a risk management committee or team.

Integrate Risk Management into Decision-Making:

- ✓ Incorporate risk management into strategic planning and decision-making processes.
- ✓ Use risk management to inform budgeting and resource allocation decisions.
- ✓ Ensure that risk management is considered in all major projects and initiatives.

VALUE ADD RISK MANAGEMENT

Identify and Assess Risks:

- ✓ Conduct regular risk assessments to identify potential risks.
- ✓ Use a risk assessment methodology that considers likelihood, impact, and velocity.
- ✓ Prioritize risks based on their potential impact on municipal objectives.

Develop and Implement Risk Mitigation Plans:

- ✓ Develop risk mitigation plans that outline strategies for managing identified risks.
- ✓ Assign responsibility for implementing risk mitigation plans.
- ✓ Monitor and review the effectiveness of risk mitigation plans.

Monitor and Review Risk Management Performance:

- ✓ Establish key performance indicators (KPIs) to measure risk management performance.
- ✓ Regularly review and update the risk management framework and risk assessments.
- ✓ Report on risk management performance to municipal council and stakeholders.

VALUE ADD RISK MANAGEMENT

Provide Training and Awareness:

- ✓ Provide risk management training and awareness programs for municipal employees.
- ✓ Ensure that employees understand their roles and responsibilities in risk management.
- ✓ Encourage a risk-aware culture within the municipality.

Leverage Technology:

- ✓ Consider using risk management software to support risk management processes.
- ✓ Use data analytics to inform risk management decisions.
- ✓ Ensure that risk management systems are integrated with other municipal systems.

By taking these steps, municipalities can ensure that value-add risk management is implemented and integrated into their organizations.

RISK MATURITY OF A MUNICIPALITY

Governance and Leadership:

- ✓ Risk Management Policy: Is there a clear risk management policy in place?
- ✓ Risk Management Framework: Is there a well-defined risk management framework?
- ✓ Risk Appetite Statement: Is there a clear risk appetite statement?
- ✓ Risk Management Roles and Responsibilities: Are risk management roles and responsibilities clearly defined?

Risk Management Processes:

- ✓ Risk Identification: Are risks identified and documented regularly?
- ✓ Risk Assessment: Are risks assessed for likelihood and impact?
- ✓ Risk Prioritization: Are risks prioritized based on likelihood and impact?
- ✓ Risk Mitigation: Are risk mitigation plans developed and implemented?
- ✓ Risk Monitoring: Are risks continuously monitored and reviewed?

RISK MATURITY OF A MUNICIPALITY

Risk Culture and Awareness:

- ✓ Risk Awareness Training: Is risk awareness training provided to employees?
- ✓ Risk Communication: Is risk information communicated effectively to stakeholders?
- ✓ Risk Culture: Is there a risk-aware culture within the municipality?

Risk Management Tools and Techniques:

- ✓ Risk Management Software: Is risk management software used to support risk management processes?
- ✓ Risk Assessment Tools: Are risk assessment tools used to assess risks?
- ✓ Risk Mitigation Strategies: Are risk mitigation strategies developed and implemented?

RISK MATURITY OF A MUNICIPALITY

Monitoring and Review:

1. Risk Management Performance Metrics: Are risk management performance metrics established and monitored?
2. Risk Management Review: Is the risk management process reviewed and updated regularly?

Stakeholder Engagement:

- ✓ Stakeholder Identification: Are stakeholders identified and engaged in the risk management process?
- ✓ Stakeholder Communication: Is risk information communicated effectively to stakeholders?

By assessing these key issues, you can evaluate the risk maturity of a municipality and identify areas for improvement which will allow the process to add value into the municipality.



Thank You!

Risk management is not just a compliance requirement, but a valuable process that adds strategic benefits to organizations.



CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers

www.cigfaro.co.za

SAQA Recognised Professional Body