

**RISK MANAGEMENT AS A STRATEGY FOR
PROMOTING SOUND FINANCIAL MANAGEMENT AT
SEDIBENG DISTRICT MUNICIPALITY**

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**A mini-dissertation submitted in partial fulfilment of the
requirements for the degree**

MASTER OF ARTS

in

DEVELOPMENT AND MANAGEMENT

in

THE SCHOOL OF BASIC SCIENCES

at the

VAAL TRIANGLE CAMPUS

of the

North-West University

Vanderbijlpark

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May 2013

DECLARATION

I, **Natanya Meyer**, declare that, *Risk management as a strategy for promoting sound financial management at Sedibeng District Municipality*, is my own work and that all the sources I have used or quoted have been indicated and acknowledged by means of complete references.

Signature: _____

Date: _____

DEDICATION

I dedicate this document to my wonderful husband, soon to be Dr Danie Meyer, who stood by me every step of this long journey to completion. Thank you for all your assistance and motivation. I love you.

ACKNOWLEDGEMENTS

When one embarks on a journey of research, the road is many times very lonely and filled with obstacles. This is why it is so important to have people in your life on whom you can depend for that assistance and motivation that is in many cases so much needed.

Firstly, I would like to thank my Heavenly Father for giving me the talent to complete this study. Secondly, thank you to Danie, my husband, and my family, for all your assistance, motivation and for just being there when I needed someone to listen. Thirdly many thanks go out to my research supervisor, Prof Ernest Ababio. It was a privilege working with you during these many years and I am honoured to have been one of your students in this last year of your employment at the NWU. You will be missed. Last, but not least, I would like to thank Sedibeng District Municipality for allowing me to conduct my research in their municipality. Special thanks to the Municipal Manager, Mr Yunus Chamda, The Executive Mayor, Cllr. Mahole Simon Mofokeng, all the officials and managers who assisted me in completing questionnaires and, especially to the CFO, Mr Brendon Scholtz. It is not often that one has an open door or telephone line to someone this important. Your inputs and assistance is much appreciated.

A research document like this won't be possible without a vast number of people assisting in the editing, analysis and layout processes. In this regard I would like to thank the following people:

- Dr Diana Viljoen – thank you for your assistance regarding language editing and your guidance whenever I needed it;
- Linda Scott – thank you for your assistance in fixing up all my language errors and especially my bibliography;
- Desmond Erasmus – I was blessed with a brilliant student assistant who majors in statistics. Thank you for your help in analysing my questionnaires and compiling the graphs.
- Aldine Oosthuyzen – Thank you for making this document look as good as it is.

ABSTRACT

Since the introduction of the Municipal Finance Management Act (MFMA) in 2003 and the Public Sector Risk Management Framework in 2010, municipalities had to start focusing on proper risk management as part of their management activities. Within the government sector, risk management needs to be implemented in order to prevent financial losses and to improve service delivery. If shortcomings regarding risk management exist within a municipality, it could have a negative effect on sound financial management and the outcome of annual audits.

This study was conducted to test the hypothesis, namely if shortcomings regarding risk management exist within a municipality. Should this be the case, it could possible affect sound financial management and the outcome of annual audits. This was to a large extent proven within this case study and it is likely that other municipalities will have similar problems.

Information was obtained from two groups of officials of the Sedibeng District Municipality by means of one-on-one interviews and hand delivered questionnaires. Group 1 consisted of 14 officials not in management positions and group 2 of 11 officials in senior management positions. The questionnaire comprised five sections of questions that aimed at determining the extent of knowledge and attitude of the respondent towards monitoring, assessment, identification and response to risk management within their specific departments.

Analysis of the results indicated clearly that the overall risk management knowledge differed substantially from group 1 to group 2. The knowledge, monitoring, assessment, identification and response to risk management activities were minimal or unclear to respondents not in management positions. Respondents in senior management positions were more aware of risk management responsibilities. However they admitted that it was not always done as required and in many cases only due to compliance. The results are strengthened by the statement released by the Auditor General in his 2011 audit report on Sedibeng District Municipality stating “the

implementation of appropriate risk management activities to ensure risk assessment, were not conducted and the risk strategy to address the risks was not developed and monitored.”

Various recommendations are proposed within this article that could improve the overall management and sustainability of risk management within municipalities.

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LIST OF ACRONYMS

AAT	Association for Accounting Technicians
AG	Auditor General
AGSA	Auditor General of South Africa
AU	African Union
CBD	Central business district
CFO	Chief financial officer
CIA	Central Intelligence Agency
COSO	Committee of Sponsoring Organisations
CRO	Chief Risk Officer
DM	District municipality
EM	Executive mayor
EMM	Ekurhuleni Metropolitan Municipality
ERM	Enterprise risk management
ERMF	Enterprise risk management framework
GPPE	Gross property plant and equipment
GVA	Gross value added
HOD	Head of department
IDP	Integrated development plan
IT	Information technology
JSE	Johannesburg Stock Exchange
KLM	Kannaland Local Municipality
KPA	Key performance area
KPI	Key performance indicators
LDC	Less developed countries
MAB	Management Advisory Board
MIAC	Management Improvement Advisory Committee
MFMA	Municipal Finance Management Act
MISS	Minimum Information Security Standards
MLM	Midvaal Local Municipality

MM	Municipal manager
MMC	Member of mayoral committee
MRA	Mini risk analysis
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
NSDP	National Spatial Development Perspective
NSW	New South Wales
OECD	Organization for Economic Co-Operation and Development
OHS	Occupational health and safety
PAA	Public Audit Act
PAGD	Public Accounting General Directorate
PFMA	Public Financial Management Act
POSDCORB	Planning, organising, staffing, directing, coordinating, report, and budgeting
PPP	Public private partnerships
PPPFA	Preferential Procurement Policy Framework Act
PSRMF	Public Sector Risk Management Framework
RAM	Risk analysis method
RAV	Risk and vulnerability analysis
RMC	Risk management committee
RMO	Risk management office
SARS	South African Revenue Services
SDBIP	Service delivery business implementation plan
SDM	Sedibeng District Municipality
SWOT	Strengths, weaknesses, opportunities and threats
TCRP	Transit cooperative research program
ULM	Umdoni Local Municipality
UN	United Nations
USA	United States of America
WTO	World Trade Organization

CHAPTER 1

INTRODUCTION

“Risk is like fire: If controlled it will help you; if uncontrolled it will rise up and destroy you.” – Theodore Roosevelt

TITLE

An appraisal of risk management as a strategy to promote sound financial management at Sedibeng District Municipality (SDM)

KEYWORDS

Risk management, financial management, strategies, policies, training, identification, risk indicators, key performance indicators (KPIs), Sedibeng District Municipality

1.1 INTRODUCTION

The main aim of this study was to examine the shortcomings between sound financial management and risk management within the municipal sphere with specific reference to Sedibeng District Municipality. The possible reasons for the use of current risk management strategies and policies, and their effectiveness within local municipalities, were also explored.

1.2 ORIENTATION

The word ‘risk’ can be used in the circumstance of a potential hazard occurring or the possibility of an unfortunate outcome that may result from a given action. In financial management, the term indicates that there is an expectation that the actual outcome of a project may differ from the expected outcome. The magnitude of the possible difference between these outcomes reflects the magnitude of the risk (Correia *et al.*, 2003:3).

Since the concept of risk management works hand-in-hand with financial management, the delicate topic of financial management has also been addressed within this study. Financial management, relying heavily on allied

disciplines such as economics and accounting, is essentially an applied discipline, which is approached from the perspective of a financial manager (McKinney, 1995:18).

Financial risk management can be described as a practice of creating growth within an economy, or adding value in an institution, by using financial instruments to manage or control risk exposure. As with general risk management, financial risk management also requires identifying risk sources, risk measurement, and formulating plans to reduce or resolve risk. Financial risk management focuses on when and how to cover or hedge an organisation by using financial instruments or other precautionary measurements, to manage unnecessary and costly exposures to risk (Tapiero, 2004:25).

Managing risk is a basic day-to-day activity, conducted in order to address possible concerns that may arise in organisations due to an error or unplanned events. The expression 'managing risk' involves substantial elements of uncertainty because it requires the risk manager to anticipate the future (Cleary & Malleret, 2006:74).

Since the implementation of the Constitution in 1996, municipalities in South Africa were allocated significantly more functions and responsibilities than before. Due to these increased responsibilities, increased pressure on financial responsibilities resulted in increased risk occurrences. For municipalities to perform their constitutional duties, more and better resources are needed. Resources take the form of management, labour, planning, and most importantly, finances. Compared to provincial government, local government has a much higher source of revenue in the form of rates and taxes, sale of basic services, and other levies. Finance is probably the most difficult resource to manage within municipalities, as the risks relating to sound financial management is high (Cameron, 1999:250).

In South African municipal financial risk or financial stability is measured by means of auditing all municipalities' financial statements on an annual basis. The Auditor General of South Africa (AGSA) oversees this process. Financial

audit outcomes are measured on five levels, namely, adverse audit report, disclaimer of audit opinion, qualified audit opinion, financially unqualified with finding, and financially unqualified without finding, also known as a 'clean audit' (The Local Government Handbook, 2013:1).

Many challenges have been identified within local municipalities in South Africa, including Sedibeng District Municipality. One of the challenges that stand out is the need for improved management of financial resources at all levels of government, including local government (Kenosi, 2007:112). Kenosi (2007:112) further points out that sound financial management can be related directly to proper risk management procedures and thus forms an integral part of the management process in the local government sphere.

For many years, risk management, has been a common practice in most private companies. It has become an important component of public management since the introduction of the Municipal Finance Management Act, (56 of 2003) (MFMA). It is important that all institutions, whether private or public, and various departments within these institutions, apply basic risk management principles within their central management units. Risk management is not so much about solving a problem as it is about preventing the problem from occurring (Visser & Erasmus, 2009:199).

The promulgation of the provisions of the Public Financial Management Act, (1 of 1999) (PFMA) in 1999 and 2000 brought a number of new financial management practices into play within the public sector. One of the requirements of the Act is the proper management of revenue and liabilities. Therefore, it is necessary to give attention to these practices regarding public financial management to ensure that public managers perform their duties and responsibilities with consideration of the risks involved (Visser & Erasmus, 2009:199). In practice, risk management should receive high priority in the policy of an institution, whereby risks with the greatest potential to result in losses must receive management's urgent attention (Ovningar, 2006:4).

Certain risk management and financial management procedures and plans should be in place at local municipalities. The objective of the Municipal

Financial Management Act (56 of 2003) aims at securing sound and sustainable management within the fiscal and financial affairs of all municipalities and other municipal entities. This is done by establishing norms and standards and other requirements. These risk management procedures have major shortcomings and are currently not addressing the issue of proper and sound financial management within local municipal spheres due to various reasons. However, the reasons for risk management procedures and plans not working effectively within most South African local governments are not clearly defined. The purpose of this study was to identify shortcomings within existing risk management and to recommend a risk management program to assist in sound financial management within local municipalities in South Africa.

1.3 PROBLEM STATEMENT

Risk management is essential for good financial management. The lack of sound financial, and proper risk management procedures in any institution, can lead to mismanagement and other problematic issues. It is therefore of utmost importance that these management systems are in place.

Sedibeng District Municipality comprises three local municipalities, namely Emfuleni Local Municipality, Lesedi Local Municipality, and Midvaal Local Municipality (See Appendix I). The geographical area is 4173 km², with an estimated population of 843 006 people, as per the National Spatial Development Perspective (The Presidency, 2006:24-30).

The Sedibeng District Municipality is classified as a Category C municipality, in terms of the Municipal Structure Act (117/1998) and is located in close proximity to the commercial and industrial heartland of Gauteng. It is approximately 50 km from the Johannesburg central business district (CBD) and O.R. Tambo International Airport. It borders on three provinces, namely Mpumalanga, Free State and the North West. Metals, energy and construction sectors dominates the economy of the area, but some agricultural and tourism and leisure, due to the Vaal dam and Vaal river, are also included in the area (Sedibeng District Municipality, 2012:1-20).

According to Nombembe (2011:5), for financial years 2010/11 and 2011/12, the Sedibeng District Municipality had financially unqualified audit reports, but with findings. This means that their finances are free from material misstatements and can be seen as financially reliable. Material findings regarding other areas of non-compliance were identified within the audit report. Nombembe (2011:5) further states that “the implementation of appropriate risk management activities to ensure risk assessments, including consideration of IT risks and fraud prevention, were not conducted and the risk strategy to address the risks was not developed and monitored.”

Nombembe (2011:5) noted that some monies were not properly reconciled as unauthorised, fruitless and wasteful expenditure took place. There were no regular reviews and monitoring of compliance with applicable laws and regulations, or proper implementation of daily and monthly processing of transactions and reconciling.

Informal interviews with some of the directors and the chief financial officer (CFO) of Sedibeng District Municipality showed the following hypothetical shortcomings regarding risk management systems:

- The Finance Department’s income is not realised on time, and, grants and subsidies are not sufficiently received from government.
- The Transport Infrastructure and Environment Department encounters similar problems with asset management. Other issues, such as staff shortages and competency also hold risk issues for the department.
- The Strategic Planning and Economic Development Department faces problems such as the risk of not planning for future growth regarding integrated spatial development planning.
- The Department of Community Services faces risks regarding funding for HIV/AIDS training and prevention campaigns, and staff shortages.
- The Corporate Services Department has risks relating to proper administration and archiving of records.

- Lack of budget control and proper implementation and monitoring of risk management strategies is an overarching risk that is common amongst these departments.

All of these possible risks should be investigated to determine their extent as well as the negative impact they can have on the various departments. The above-listed shortages in risk management are causes for concern, and this study aims to assist in establishing the degree of potential risk and financial losses at Sedibeng District Municipality, and to provide recommendations to help close the gaps.

1.4 HYPOTHESIS

The following hypothesis is listed: Sedibeng District Municipality is a public institution and shortcomings regarding risk management exist that are likely to affect the sound financial management and, in turn, the outcome of annual audits at the municipality.

1.5 RESEARCH QUESTIONS

The following questions were formulated from an analysis of the orientation and problem statement:

- What is risk management and what is its relation to sound financial management?
- What risk management and financial management systems exist at Sedibeng District Municipality?
- How effective and beneficial is the risk management system at Sedibeng District Municipality?
- What best practice models and policies can be used to improve current risk management systems at Sedibeng District Municipality?
- What recommendations can be made to improve the current risk management system at Sedibeng District Municipality?

1.6 RESEARCH OBJECTIVES

The following study objectives were outlined:

- To provide a theoretical exposition for the term risk management, and investigate its relationship with sound financial management.
- To describe the existing risk management system at Sedibeng District Municipality.
- To conduct research into the effectiveness of risk management systems, and to identify the different areas where risk management systems can improve, in relation to financial management, at Sedibeng District Municipality.
- To compare current risk management and financial management best practice policies in other areas to Sedibeng District Municipality.
- To provide recommendations for the improvement of risk management systems at Sedibeng District Municipality.

1.7 RESEARCH METHODOLOGY

The methodology for this study will comprise literature study, group discussions, face-to-face interviews, questionnaires and an empirical data analysis.

To ensure that the planning of a research study is well co-ordinated, well-defined processes should be followed. Together, these processes form part of the methodology for the execution of the research to be conducted. Methodologies help to implement processes to manage the project or studies, risk, changes, issues, time, cost and quality (White, 2007:1, Mouton, 2011).

The nature of this study comprised using a mixed research method. Both qualitative as well as quantitative methods were used to obtain data. Tools such as group discussions, one-on-one interviews and structured questionnaires will be used, as data obtained in this manner is generally more

effective in testing and discovering underlying patterns and meanings of a hypothesis (FAO, 2013:2). This study will focus on determining why and how decision are made, and not just where, what and when. (Neill, 2007:1).

1.7.1 Literature study

A broad range of secondary sources and study material will be reviewed, that could serve as a foundation for this study. These sources will include books, journals, policies, the internet, newspaper articles, dissertations and theses. National financial policies and statutory frameworks will also be consulted. Various international and local best practice models and policies will be studied to determine the theoretical base for the study.

1.7.2 Qualitative and quantitative study

The empirical analysis will involve the use of a questionnaire, compiled under the guidance of the study leader, for the purpose of in-depth interviews with relevant stakeholders. The research will be based on one-on-one interviews, as well as group discussions scheduled with the executive mayor (EM), members of the mayoral committee and councillors, the municipal manager (MM), chief financial officer, and various directors and employees of Sedibeng District Municipality. These interviews will be conducted in order to determine their perception of the extent of risk management hazards at the municipality, and how risk is managed.

The objectives of the interviews are firstly, to identify specific risks that do exist and determine which strategies are used to solve them. Second, to establish the different views and thoughts held by the role-players regarding risk identification, assessment, monitoring and response of risk issues and third, how risk management is used as a strategy to ensure improved financial management.

1.7.3 Research ethics

This research dissertation will adhere to the following principles and guidelines:

- Research will be objective and completed with integrity.
- High technical standards will be maintained, especially regarding referencing and sources.
- An epistemic approach to science will be followed.
- High levels of values, norms and standards will be maintained.
- The surveys and personal interviews that will be compiled for this research, will clearly explain the purpose and importance of research and participant consent will be obtained. All information will be utilised with the confidentiality of respondents intact.
- Research results will be disseminated in an open and transparent manner.
- The required consent forms will be submitted before the identified respondents are interviewed.

1.8 VALUE OF RESEARCH

This study will aim to contribute to the improvement of risk management processes at Sedibeng District Municipality. This municipality has had an unqualified audit report with finding for the past seven financial terms. The study will aim at identifying possible areas of improvement to ensure a 100 percent clean audit and improve financial wellbeing at the municipality, by means of implementing risk management tools. Good service delivery can be directly linked to sound financial management and *vice-versa* (Tshabalala, 2009:1). It should be any municipality's aim to provide good services to its residents and stakeholders.

Demands are continuously being created for infrastructure improvement as well as the need for new developments due to increased economic growth and urbanisation, and these issues can create increased financial risks within a municipality (Faurie, 2010:1). According to Harmony Gold Mining Activity (2011:4), it can be anticipated that without correct risk and financial

management procedures in place, the future growth of any area could be at risk.

Given the level and pace of change in South African municipalities, such as Sedibeng DM, with regard *inter alia*, economic growth or decline, service delivery and infrastructure backlogs, there is a need for municipalities to revise and/or implement new and better risk management systems. It is almost impossible to avoid risks, so risks should be managed correctly, and effective risk management procedures, include appropriate management of balance between risk and control, implementation of more effective decision making procedures, making better use of limited resources, and ensuring greater innovation (Foster, 2000:10).

1.9 CHAPTERS CLASSIFICATION

Chapter 1: Introduction

This chapter introduces the study and include issues such as orientation, theoretical statement, hypothesis, research questions and objectives, research design and methodology, as well as the chapter layout.

Chapter 2: Theoretical analysis regarding risk management and financial management.

This chapter addresses the key theoretical issues and discussions regarding risk and financial management. It provides an overview of concepts, definitions, policies and regulation of the key issues addressed in the research study.

Chapter 3: Best practice strategies and case studies within Local Municipalities.

This chapter investigates best practice case studies regarding sound financial and risk management policies in place within other municipalities and other institutions. The best practices will then be highlighted in order to formulate strategies and policy guidelines, which will be used to conclude this study and provide recommendations.

Chapter 4: Status Quo Analysis at Sedibeng District Municipality.

This chapter addresses and analyses the current status quo regarding risk management strategies within the Sedibeng District Municipality. The questionnaire design and outcome is also analysed in this chapter. The effectiveness of risk management and financial management is determined within this municipality, and the two topics are linked to each other in order to compile a strategy for sound financial management.

Chapter 5: Findings, conclusion and recommendations.

This chapter summarises the study and links the research objectives and theoretical statement. Findings and recommendations are provided regarding the survey and possible solutions to better risk management within Sedibeng DM is recommended.

CHAPTER 2

ANALYSIS OF THEORY REGARDING RISK MANAGEMENT AND FINANCIAL MANAGEMENT

“Fail to identify the strategic risks and you fail as a business, no matter how well you manage your operational and project risks.” – Keith Baxter

2.1 INTRODUCTION

This chapter aims to address the theoretical concepts of financial management and risk management. The chapter also includes an overview of related topics such as strategies, policies, training, risk indicators, and key performance indicators, all within the local government sphere.

2.2 FINANCIAL MANAGEMENT VERSUS RISK MANAGEMENT

The following sections will include detailed definitions regarding risk and financial management. It will explain the concepts behind the fundamental objectives of financial management and risk management and distinguish between strategic risk and operational risk.

2.2.1 Definitions

Financial management means planning, controlling, organising and directing activities such as maximum procurement and maximum utilisation of funds of an institution, whether privately owned or public of nature. It can be defined as applying general management principles to reduce risk and maximise increased profit in the public sector or improvement of service delivery in the public sector (Brigham and Johnson 1980:19). Within the public management framework the generic management functions is referred to as POSDCORB, (planning, organising, staffing, directing, coordinating, report, and budgeting). POSDCORB, also referred to as the seven functions of managers, was designed by social scientists, Gulick and Urwick (1937), in order to better

analyse management functions and better management structure within an organisation.

According to Akrani (2012:1), financial management means:

- To collect the finance of a company or an organisation at a low cost;
- Use this collected finance for earning maximum profits or service delivery improvements.

Thus, financial management means to plan and control the finances of an institution in order to achieve the objectives of the institution.

The term risk management can be explained as the identification, prioritisation and assessment of a risk, or various risks. Risk management can also be defined as the effect of certainty or uncertainty on outcomes, which could be positive or negative. It can further be explained as maximising the allocation of scarce resources in a co-ordinated and economical way. This is done by monitoring and controlling the probability of events occurring for maximum profit or opportunities (Crockford, 1986:1-18). According Spaulding (2005:1) the term can further be explained as the control, analysis and avoidance to minimise or eliminate risks that are unacceptable, by using advanced techniques such as risk assumption, risk retention, risk avoidance, risk transfer, or any other strategy or combination of strategies, in proper management of current and future events.

The concepts of financial management and risk management, have shared outcomes which are the minimisation of risk, increased profits and improved utilising of resources.

2.2.2 Fundamental objectives of financial management

According to Bessis (2002:54-60), in many academic disciplines it is useful to define the fundamental objective which the discipline aspires to achieve. Objectives that are relevant regarding financial management usually focus on maximising a specific variable. Within the private sector, this variable refers to

maximising profit, and within the public sector; the variable to be maximised is service delivery. The main objectives include:

- Ensure adequate and regular supply of funds;
- Ensure optimal funding utilisation;
- Ensure adequate returns to shareholders and in the case of public institutions such as a municipality, the shareholders can be seen as the ratepayers or residents;
- Ensure safety and sufficient growth of investments;
- Plan for sound financial structures;
- Minimise the risk associated with financial decision making.

2.2.3 Fundamental objectives of risk management

Regardless of whether the entity is private or public (for example, a municipality), one of the primary objectives of risk management is to identify, manage and take preventive steps to handle uncertainties. Some of the ways to ensure that this occurs include (Bessis, 2002:54-60):

- To minimise the potential severity of a negative event and enforcing precautionary measures to prevent these events;
- In the event of a negative or adverse event taking place, the burden on the financial impact will be shifted to a third party by taking out insurance;
- To identify and realise that a variety of risks exist and to withstand or limit the financial impact of them.

2.2.4 Strategic risk and operational risk

It is important to distinguish the difference between strategic and operational risk. The definitions will be discussed and explained within the context the public sector and specifically the municipal sphere of government.

2.2.4.1 Strategic risk

According to Frigo and Anderson (2011:21-22, 61), part of strategic risk management involves the management of an institution to predict and manage risk in highly uncertain environments and situations. Strategic risk management works together with enterprise risk management, where the focus of attention is on the applied strategy setting across the whole enterprise and not just in various sectors or sections of the organisation. High-level goals are streamlined and aligned with the mission of the organisation. Strategic risks are external or internal events that affect the organisation's ability to achieve its objectives. Strategic risk management aims at significantly reducing the risks related to shareholder value.

The following six principles form the basis of strategic risk (Frigo & Anderson, 2011:21-22, 61):

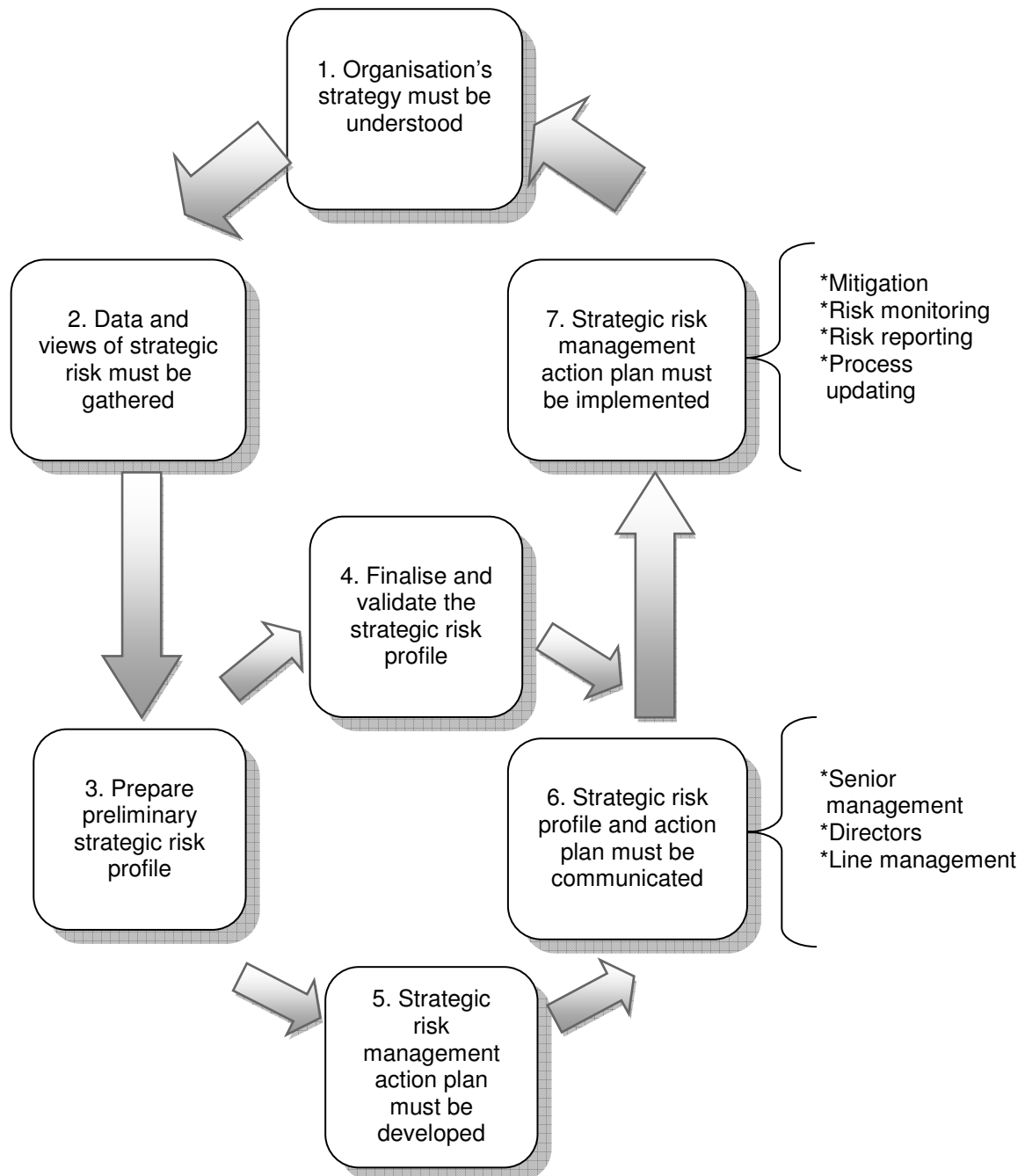
- Identifying, assessing and managing internal and external risks;
- Creating and protecting shareholder's value;
- Strategic risk management is a primary component of enterprise risk management;
- It can be affected by director's and board members as it is part of enterprise risk management;
- There should be a clear strategic view on how the organisation will assess scenarios in order to achieve its objectives;
- It must always be seen as a continuous process of reviewing and monitoring risks by means of strategy execution and management.

Strategic risk can be divided into two categories, namely business risks and non-business risks. Business risks refer to risks that arise from decisions taken by directors regarding products or services supplied. Non-business risks, on the other hand, are not related to the products or services that an

organisation supplies, but are related to other important issues within the company such as sources of finance (Weller, 2008:34).

Figure 2.1 is a summary of the strategic risk assessment process listed by Frigo and Anderson (2011:21-22, 61).

Figure 2.1: Strategic risk assessment process



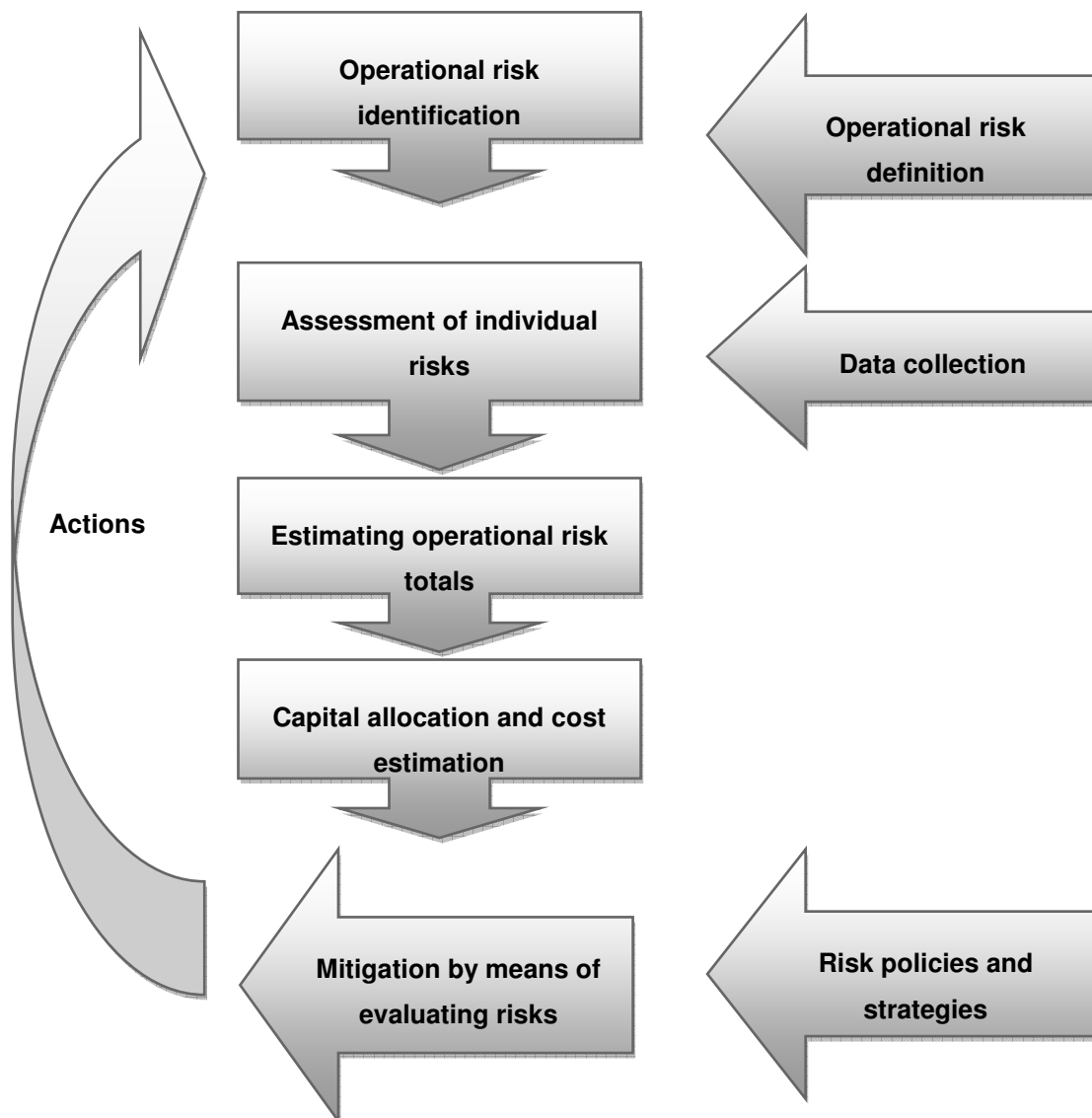
Source: Frigo, (2011:1).

2.2.4.2 Operational risk

Operational risks can be defined as risks relating to an organisation's internal activities. It can further be defined as risks relating to or arising from systems, processes and people, such as legal risk, fraud and environmental issues (Jobst, 2007:10-15). Strategic risk management is very important but there is no use in forward planning if risks are high and uncontrolled on ground level. These ground level risks are referred to as operational risks. Normally the board of directors or top management will not be directly responsible for operational risk. Instead, a risk committee will be appointed to control, manage, monitor and assess operational risks within an organisation. The risk committee will be responsible for compiling the risk management framework and policies for an organisation. They are also responsible for making sure that sufficient training is available for staff and employees and that information is provided, as well as regular reporting back to top management. Operational risk analysis is more difficult than other risk analysis processes due to the fact that a large number of elements or sources are working together. A way to overcome this is by grouping the risks in order of probability and impact or consequence (Weller, 2008:35).

Figure 2.2 illustrates the important elements of operational risk management.

Figure 2.2: Important elements of operational risk management



Source: Moen, (2013:12-20).

2.3 FINANCIAL MANAGEMENT AND DECISION MAKING PROCESSES

According to Doya and Shadlen (2012:911-913), the term decision making can be defined as the process of selecting a logical choice from the available options and information. A financial or risk manager must weigh the positives and negatives of each option against each other in order to make an informed decision. For an effective decision to be made, a manager must be able to forecast the outcome of each alternative option and determine the degree or

magnitude of risk involved. Most managers view the optimal allocation of scarce resources of key importance to the success of an organisation. This requires the prioritisation of objectives, and a detailed and extensive cost-benefit analysis. Large volumes of data must be collected and analysed by financial managers, and decisions must be made based on relevant and available data. Therefore, the more data or information that is available, the better the decision will be that the manager needs to make. Financial management therefore, focuses on specific principles of decision-making. As decisions require making estimations, there are a few exact solutions applicable to any financial management problem. Decisions are made on the basis of the information available at the time, as well as the quality of the information. Decisions can be based on certainty, uncertainty and risk (Bessis, 2002:54).

2.3.1 Decision-making based on certainty

Under conditions of absolute certainty, the decision maker knows exactly what will happen in the future and what the consequences of a decision will be (Visser *et al*, 2004:15). Enough information and knowledge about a specific situation or problem is available since accurate, measurable and trustworthy information, to base decisions, is easily available. In such cases, the decision maker is aware of the consequences of each alternative, and has to decide on the alternative that will result in the most advantageous outcome (Redelinghuis *et al.*, 1996:4). This scenario of absolute certainty is almost impossible as all variables will never be known, and some information will always be either unavailable or inaccurate. In the event of all variables and information always being available and accurate, there would be no risk in making decisions, as the outcome of the decisions will always be known.

2.3.2 Decision-making based on uncertainty

Under conditions of uncertainty, not much information is available. If the decision maker is not capable of determining the probability of occurrences in future, there is a possibility that uncertainty exists. In such cases, the decision makers are not even aware of the probable result of the different alternatives

(Redelinghuis *et al.*, 1996:4). This scenario is at the opposite end of certainty. This is the case where no, or very few, variables and information are available. The outcome of decisions, based on uncertainty and lack of information will always be unknown and unpredictable.

2.3.3 Decision-making based on risk

Risk is a position between absolute certainty and uncertainty. Conditions of absolute certainty are virtually impossible to achieve in the modern public management environment due to changing factors, such as income generation, policy change, and change of management, unsatisfied residents, increase in taxes, increase in commodity prices such as electricity, and shortages of skilled workers. An estimate of the possibility or probability of future occurrences is, therefore, often the only alternative on which public managers can base their decisions. Such a condition can be referred to as risk. The basic characteristic of risk is that decision makers have just enough information concerning each alternative to estimate the likelihood that the consequence will occur if the alternative is applied (Certo, 1983:112).

2.3.4 The role of the financial manager

The financial manager performs two primary roles. The first is to pursue wealth-creating investment opportunities. Once again, it must be remembered that this role will differ slightly from private to public organisations. It is a relatively easy concept within the private sector, namely profit. However, within the public sector this statement, wealth creation, can refer to issues such as management of funds and proper investment of excess income. Financial managers within the municipal sector also carry the responsibility of asset management and risk management (Brealy and Myers, 2003:19). The differences between public sector finance and private sector finance are briefly listed in table 2.1:

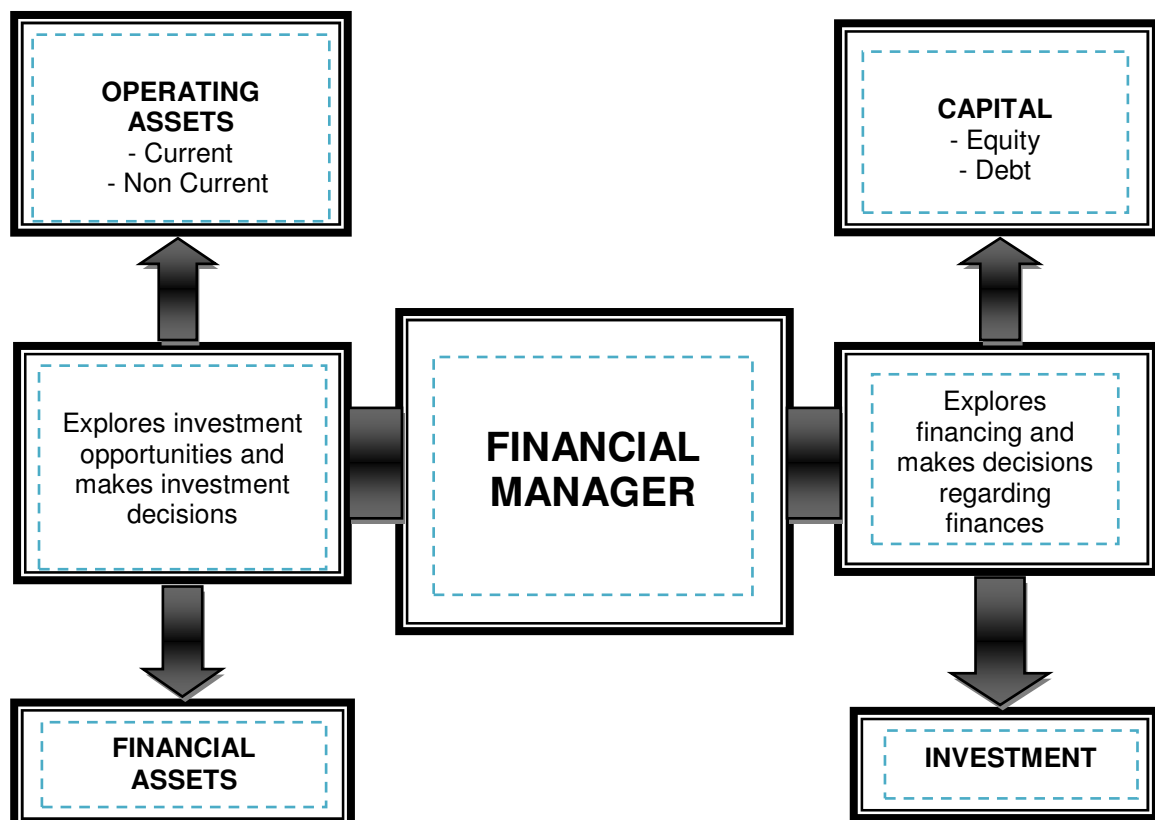
Table 2.1: Differences between private and public finance

Private Sector	Public Sector
Maximum profit	Service delivery
Create own wealth	Wealth for communities
Little obligation to communities	Focus on community development
Risk own capital	Funded by taxes
Led by free market	Politicised manifestos
Focus on successor training	Focus on performance management

Source: Meyer, (2013).

The second role of a financial manager is to find sufficient funds to create wealth. This can be done by monitoring and managing the physical gathering of ratepayer’s service fees as illustrated in figure 2.3.

Figure 2.3: The role of the financial manager



Source: Correia *et al.*, (2003:1-11).

2.3.5 The role of the Auditor General

The Constitution (1996) provides the mandate and functions of the Auditor General (AG) of South Africa, as an institution supporting constitutional democracy. The AG should be impartial and must execute its functions without favour, fear or prejudice.

Some of the responsibilities of the AG include expressing an opinion on financial statements of municipalities, based on their audit, as required by Section 188 of the Constitution of SA, 1996 (108 of 1996) and section 4 of the Public Audit Act of SA, 2004 (25 of 2004) (PAA).

Furthermore, the AG is required to comply with ethical requirements to assess the audit, to find reasonable convincing evidence whether the financial statements of a municipality or public institution is free from material misstatements.

The audit includes looking at performing procedures in order to obtain sufficient evidence that the amounts and disclosures within the financial statements are correct. One of the key elements looked at is the assessment of the risk of material misstatement. While making these risk assessments, the AG may consider internal control that is relevant to the municipality or organisation's preparation of the financial statements, in order for them to alter or adapt design procedures that will be appropriate to the risk assessment circumstances (AGSA, 2013).

2.3.5.1 Financial audit outcomes

- There are certain terminologies used to describe the outcome of the AG report, these are explained in five different ways (The Local Government Handbook, 2013):
- Adverse audit opinion: the entity's financial statements contain misstatements that were not restrained to exact amounts, or the misstatements represent a considerable portion of the financial statements;

- Disclaimer of audit opinion: this is when inadequate documentation is available for the AG to form an opinion regarding the items reported within the financial statements;
- Qualified audit opinion: there is insufficient evidence for the AG to conclude that specific amounts included in the financial statements are not materially misstated, or there exists material misstatements in definite amounts within the financial statements;
- Financially unqualified with findings: this means that the financial statements are free from material misstatements and can be considered financially trustworthy, however, the audit report did contain material findings concerning other areas of non-compliance;
- Financially unqualified without findings: also referred to as a 'clean audit', is considered the best outcome of an audit. A financially unqualified report without findings refers to three aspects: (1) the financial statements are free from material misstatements, (2) there are no material findings on the annual performance report, and lastly, (3) there are no findings on compliance with regards to key laws and regulation. This report is the goal of government's Operation Clean Audit (The Local Government Handbook, 2013).

2.4 RISK MANAGEMENT WITHIN THE PUBLIC SECTOR

Usually, risk, as a word, is used in view of a potential hazard occurring, or in the event of an unfortunate outcome realising. In financial management, the term indicates that there is an expectation that the accrual outcome of a project may differ from the expected outcome. The magnitude of the possible difference reflects the magnitude of the risk (Correia *et al.*, 2003:2-3).

Often, the terms risk and uncertainty are used interchangeably. However, there is a difference between these two terms. Uncertainty implies either that not all the alternatives possible outcomes can be identified, or that no probability can be attached to the alternative possible outcomes. Risk implies that it is possible to attach probabilities to identified expected outcomes (Correia *et al.*, 2003:2-3). Table 2.1 lists the differences.

Table 2.2: Certainty versus risk versus uncertainty

	CERTAINTY	RISK	UNCERTAINTY
DEFINITION	The outcome of a decision is known.	The outcomes are known, and probabilities can be attached to those outcomes.	All the alternative outcomes of a decision can-not be identified, or probabilities cannot be attached to the possible outcomes.
EXAMPLE	If you decide to fill your car up with water instead of petrol, it will be certain that the car will not drive.	If you invest money in a business after you have received statistical information regarding past growth and profits, you have certain information available to you that can help you make an informed decision. However, the risk remains that the profit margin could change. You know the outcomes can be either a success or a failure, and you can attach percentages to each one, for example the chance is 60 percent that the investment will be a success, and 40 percent that it will be a failure.	If you invest in an unknown business where no information about past profit margins was available, and you do not know what the possible outcome will be.

Source: Oberholzer and Van Rooyen, (2004:26).

2.5 RISK MANAGEMENT COMPONENTS

A well-established risk management program is based on three critical mechanisms, namely a centralised unit with trained staff, formal risk management policies, and a good record-keeping system (Ceo, 1989:188-189). The following components will be discussed:

- Risk management unit;
- Risk management strategies / policies;
- Record keeping;

- Key performance indicators (KPIs) and key performance area's (KPAs);
- Revenue (asset) management.

2.5.1 Risk management unit

Risk management programs are highly reliant on a government department's setting up of risk management units. Risk management units are groups of people, with a risk manager at top management level, who are accountable and responsible for certain risk management and risk avoidance issues within the organisation. These units must be trained in managing risk and loss reduction techniques. Risk management is technical by nature (Mckinney, 1995:186).

According to Carter and Crockford (1989:1-6) the task of the risk management unit can be set out as below:

- Consider the impact of certain risky events on the performance of public institutions;
- Devise alternative strategies for controlling these risks and/or their impact on the public institution;
- Relate these alternative strategies to the general decision framework used by the organisation.

2.5.2 Risk management strategies / policies

It is imperative that the specific risk management policies being used are clearly under-written, and that all parties involved are fully aware of the exact policies that are in place. These policies should be specially designed and developed to suit the specific needs of all departments. The following aspects should be considered when formulating risk management policies (McKinney, 1995:186):

- The goals and philosophy;
- Types of risks to hedge;

- Criteria for selecting risk strategies;
- Types of risks that the department or organisation can expect;
- Safety program directives.

2.5.3 Record keeping

It is important that proper record-keeping systems are in place within any risk management program. Precise and accurate records are necessary to identify, measure and control risks, and to evaluate the effectiveness of the specific risk management program.

Examples of such records are (Visser 2004:15):

- Schedule of the insurable values of all buildings and their content;
- Details of the make, year and value of all mobile equipment;
- Insurable policies in use, along with expiration dates;
- Claims and loss records;
- Premium/loss comparisons;
- Income generated from taxes, grants and other sources;
- Capital and operating expenditures.

These components of risk management form the basis on which the risk management processes are built.

2.5.4 Key performance indicators (KPIs) and key performance area (KPAs)

Municipalities generally measure the performance of officials and departments by setting key performance indicators (KPIs) and establishing key performance areas (KPAs). According to Smith (2001:14-19), a KPI can be explained as a measurement to determine optimum performance of a company or organisation. This term is also sometimes referred to as a

benchmark which must be maintained at a specific level. A KPA refers to a specific area within a business or organisation rather than a specific indicator or information piece. KPAs are groupings of information or indicators.

Performance management should be addressed as an integral part of the strategic risk management and planning process. According to Visser (2004:14-23), it is necessary that the accounting officer identify the following during the planning stage of any program, activity or project:

- The measure of efficiency and economy against which the institution's delivery of the program, activity or project can be evaluated;
- Indicators of the effectiveness with which the program, activity or project is achieving the institution's objectives and outcomes;
- Systems and processes that are necessary for collecting the information, which provides the basis for the measures and indicators, are available as part of the program, activity or project implementation.

2.5.5 Revenue (asset) management

Asset management forms a vital part of risk management. Risk is generated when assets are lost or damaged and therefore proper asset management can lead to sustained and increased risk management. The main objective of good asset management is to obtain the best mix of assets and other resources which are necessary for the economical, effective and efficient delivery of the institution's programmed outputs and objectives (South Africa, 1999:89).

The requirements for asset management include a central register of all the applicable assets or group of assets of the organisation, which must also be maintained by the chief financial officer or the delegated official. The asset register must at least contain the following information (CTRE, 2012):

- Details of purchasing transaction: date, acquisition, supplier and purchase reference;

- Description of an asset: registered number of identifier, model, and manufacturer serial number;
- Accountability information: particulars of the assigned manager, program, location, covenants and restrictions;
- Financial information: actual cost, depreciation rate (according to SARS) and accumulated depreciation;
- Disposal information: expected useful life, estimated residual or disposal value.

2.6 POLICY AND STATUTORY FRAMEWORKS

The statutory framework for public financial management includes a vast number of legislation and public policies that have a direct impact on the way in which financial management is dealt with in the different spheres of government. Some of the most important legislation policies will be discussed in the following sections.

2.6.1 The Constitution of the Republic of South Africa

The Constitution deals, as far as public financial management is concerned, national supervision of provincial administration (Section 100), provincial supervision of local government (Section 139), and internal procedures within municipalities (Section 160.2). It also deals with principles of public financial management (Section 195.1), national revenue fund (Section 213), equitable shares and allocation of revenue (Section 214), national, provincial and municipal budgets (Section 215), treasury control (Section 216), procurement (Section 217), government guarantees (Section 218), provincial revenue fund (Section 226), provincial taxes (Section 228), municipal fiscal powers and functions (Section 229) and provincial and municipal loans (Section 230).

The Constitution addresses very important issues such as basic services, healthcare, human dignity, and the right to live, however, it also addresses issues such as those listed above. This is a clear indication that proper

management, whether it be risk, financial or any other type of management, is just as important as basic human rights (South Africa, 1996b).

2.6.2 The Municipal Finance Management Act (56 of 2003)

In July 2004, the National Treasury introduced the Municipal Finance Management Act, (56 of 2003), (MFMA). The MFMA brought major management reforms across government, which has been achieved. In some cases the MFMA has been aligned with other local government legislation, such as the Structures Act (117 of 1998), Systems Act (32 of 2000), Property Rates Act (6 of 2004) and their regulations, to form a coherent package.

The primary objective of the National Treasury is to secure sound and sustainable management of the financial affairs of the three spheres of government, and to lead such policies and reforms. The main aim of this is to improve delivery of services to communities. This is achieved by mechanisms such as regulatory interventions, manuals, guidance, circulars, workshops, seminars, training, internship programs and hands on support to municipalities (South Africa, 2003:1-5).

The aims of the MFMA include:

- Modernise budget, accounting and financial management practices;
- Maximise the capacity of municipalities to deliver services to communities;
- To put in place a sound financial governance framework by clarifying and separating the roles and responsibilities of the council, mayor and officials.

2.6.3 Public Finance Management Act (1 of 1999) and the treasury regulations

The Public Finance Management Act, (1 of 1999), (PFMA), (updated by Government Gazette 33059 dated 1 April 2010) gives effect to Sections 213, 215, 216, 217, 218 and 219 of the Constitution of the Republic of South Africa, and focuses specifically on the national and provincial spheres of government. It replaces the various national and provincial Exchequer Acts and the

Reporting of Public Entities Act, which were in place previously (South Africa, 1999:1-5).

The purpose of the PFMA is as follows:

- Regulate financial management in the national government and provincial governments;
- Ensure that all revenue, expenditure, assets and liabilities of government are managed efficiently and effectively;
- Provide for the responsibilities of persons entrusted with financial management in government.

2.6.4 Local government: Municipal Structure Act (117 of 1998)

The main aim of this act was to provide information to municipalities regarding their categories and types. Criteria were established to determine the category of a municipality that would be recognised in a certain area and to define the type of municipality that would be established in that specific area. This act also included guidelines to distinguish between function and powers within and between categories, and to regulate the internal systems and structures (South Africa, 1998:1-2). The act determined that there are three categories of municipalities:

- Category A – these municipalities can only be within a metropolitan area. Currently South Africa has eight metropolitan municipalities (South African, 1998).
- Category B – These are the municipalities that are not a metropolitan municipality or a district municipality (Burger, 2011).
- Category C – These are the district municipalities; their primary responsibility is district-wide planning, and to facilitate capacity building (Burger, 2011).

Each category of type of municipality will have a certain type of listing linked to it. Within a Category A municipality, there are eight types, namely a municipality with a: (1) collective executive system; (2) collective and sub-council participation system; (3) collective executive system combined with a ward participating system; (4) collective executive system combined with both ward participatory as well as sub-council; (5) mayoral executive system; (6) combination of mayoral executive system and sub-council; (7) mayoral executive system with a ward participatory system; and (8) mayoral executive system with both sub-council and ward participatory system (South Africa, 1998:18).

Category B municipalities have six types of listings: (1) collective executive system; (2) collective executive system combined with a ward participating system; (3) mayoral executive system; (4) mayoral executive system with a ward participatory system (5) plenary executive system; and (6) plenary executive system with a ward participatory system (South Africa, 1998:20).

Category C municipalities, which are the district municipalities and the type of municipality being assessed in this study, have three types, of listings namely (1) collective executive system; (2) Mayoral executive system; and (3) plenary executive system (South Africa, 1998:20).

2.6.5 Local Government Municipal Systems Act (32 of 2000)

The Municipal Systems Act (32 of 2000) is responsible for many core principles and mechanisms within municipalities. One of the main purposes of this act is to assist municipalities to move in a progressive social and economic way, in order to uplift local communities and to ensure that these communities have access to important affordable services. Some other important issues addressed within this act include legal issues, political and administrative structures, the manner in which powers and functions are performed, provision for community participation, establishment of a framework for process planning, performance management, resource mobilisation, framework for local public administration, and human resource growth. This Act further includes addressing issues such as empowering the

poor, making certain that municipalities put in place proper service tariffs, and credit control policies, to mention only a few (South Africa, 2000a:1-3).

2.6.6 Local Government Municipal Property Rates Act (6 of 2004)

This Act was written to regulate the power of municipalities to impose property rates. It also addresses other issues such as exclusion of certain properties from rates and interest, to ensure transparent and fair exemption processes, to ensure proper reduction and rebates through rating policies, to ensure fair and equitable valuation of properties, and to set out terms for objections and appeal processes (South Africa, 2004a:2).

2.6.7 Public Audit Act (25 of 2004)

This Act was proclaimed on 14 December 2004 by the President, and gives effect to the stipulation of the Constitution, namely the establishment and functions of an Auditor-General. It also addresses auditing of institutions in the public sector, provides for accountability arrangements of the Auditor-General, and it assists in the repeal of certain obsolete legislation (South Africa, 2004b:1-3).

2.6.8 Financial and Fiscal Commission Act (99 of 1997)

The Financial and Fiscal Commission Act (99 of 1997), amended by the Financial and Commission Amended Act (25 of 2003), was promulgated to give effect to the constitutional requirements (Section 220, 221 and 222 of the Constitution) with regard to the establishment of a Financial and Fiscal Commission and related matters. The Act came into effect on 1 January 1998, in terms of Section 3(1) of the Act. The commission acts as a consultative body on financial and fiscal matters for organs of the state in the national, provincial and local spheres of government. It must also make recommendations and give advice on financial and fiscal matters to organs of the state in the national, provincial and local spheres of government (South Africa, 1997b:1-5).

2.6.9 Intergovernmental Fiscal Regulations Act (97 of 1997)

To strengthen the provisions of the Financial and Fiscal Commission Act, the Intergovernmental Fiscal Relations Act (97 of 1997) was introduced to:

- Promote co-operation between the national, provincial and local spheres of government on fiscal, budgetary and financial matters;
- Prescribe a process for the determination of an equitable sharing and allocation of revenue raised nationally (South Africa, 1997c:1-3).

2.6.10 Annual Division of Revenue Act (97 of 1997)

In terms of Section 10 of the Intergovernmental Fiscal Relations Act (97 of 1997), the Minister of Finance must introduce a Division of Revenue Act for the next financial year in the national assembly, when the annual national budget is introduced. The Division of Revenue Act must specify the following:

- The share of each sphere of government of the revenue raised nationally for the relevant financial year;
- Each province's equitable share of the provincial share of that revenue;
- Any other allocations to provincial or local government from the national government's share of that revenue, as well as any conditions on which those allocations are or must be made (South Africa, 1997d:1).

2.6.11 Borrowing Powers of Provincial Governments Act (48 of 1996)

The Borrowing Powers of Provincial Governments Act (48 of 1996) was promulgated to provide for norms and conditions in respect of the borrowing powers of provincial governments. It is for this reason that the PMFA (1 of 1999), as amended by Act 29 of 1999, stipulates, amongst others, that in the case of loans by a province, the loans must be within the limits as set in terms of the Borrowing Powers of Provincial Governments Act (48 of 1996) (South Africa, 1996a:1).

2.6.12 Preferential Procurement Policy Framework Act (5 of 2000) and the Preferential Procurement Regulations

This act was introduced to give effect to Section 217(3) of the Constitution (1996) by providing a framework for the implementation of the procurement policy contemplated in Section 217(2) of the Constitution (1996). The objectives of the PPPFA are the following (South Africa, 2000b:1):

- Address the inequalities in public sector procurement of the past;
- Allow for more flexibility in the sector procurement;
- Eliminate fronting and corruption.

2.6.13 Policy guidelines for a supply chain management framework

Policy guidelines for the issuance of a supply chain management framework in terms of Section 76(4)(c) of the PMFA was published by the National Treasury in October 2002. These policy guidelines are also written against the background of the provisions of Section 217 of the Constitution (1996) and the subsequent enabling legislation, such as the PPPFA (5 of 2000).

These policy guidelines will apply to the acquisition and disposal of all goods, services, construction and road works and immovable property of all organs of the state, including constitutional institutions and public entities, as defined in the PFMA, as well as national and provincial government departments (South Africa, 1999).

2.6.14 Public Sector Risk Management Framework (PSRMF)

National Treasury introduced the Public Sector Risk Management Framework during 2010. The main aim of the framework is to provide guidance on public sector risk management, and it was created in coordination with the PFMA and the MFMA for institutions to maintain efficient, successful and transparent systems of risk management.

The framework addresses some of the following issues (South Africa, 2010:1-40):

- Definitions regarding risk management. This section addresses proper definitions regarding the terms referred to within the framework. Some of the terms that are defined include accounting officer, inherent risk, internal auditing, risk tolerance, risk appetite and, risk champion, to name only a few;
- How to create an environment for the managing of risks. This section aims at assisting risk managers to create an environment that will assist them in managing risks affectively. Some of the topics explained in this section includes setting of institutional objectives, compiling a risk management strategy, analysing the organisational structure, human resource capacity, tools and technology;
- How to integrate risk management activities. This section looks mainly at enterprise risk management (ERM) used as a broad-based application of risk management;
- How to identify risks. Concepts addressed here include how to identify risks. It also looks at focus points of risk identification and strategic and operational risk identification;
- How to assess risks. This section explains in detail how to assess risks by means of a systematic process to quantify and qualify the levels of risk related to a specific threat or event;
- Risk response. The main purpose of this section is to explain how response towards risk should be done. This includes creating strategies to reduce or eliminate threats and events that can create risk. This section also includes internal architecture on how to prevent, detect and correct risks. Furthermore, it looks at management, administrative and information technology controls;

- Risk reporting and communication. This focuses on how to communicate and report risks to the relevant risk manager or risk committee;
- Risk monitoring. This section involves issues regarding monitoring concerns on how to ensure proper functioning of the complete risk management system.
- Risk management functions of executive authorities, accounting officers, audit committee, risk management committee, chief risk officer, management, and all other officials. These are sections addressing the specific function of the various entities involved in ensuring proper risk management is practiced.
- Function of risk champions. This section refers to appointing risk champions within various departments. A risk champion is someone who has exceptional skills, knowledge, leadership qualities and power of office to assist or 'champion' risk management within a specific department or sector.
- Risk management functions of internal and external auditing. The internal auditing group or committee must provide an independent, objective assurance on the effectiveness of the institution's system of risk management. The external auditing (AG) must provide an independent opinion on the effectiveness of risk management.
- Function of the national treasury and the provincial treasury. The national and provincial treasury are responsible, in terms of Section 6(2) of the PFMA and Sections 5(2) and 34 of the MFMA, for addressing the following:
 - Prescribed uniform norm and standards;
 - Monitoring the implementation of the MFMA and PFMA as well as assess it;
 - Capacity building within institutions;

- Enforcement of PFMA and MFMA.
- Evaluation of risk management effectiveness. This section addresses the evaluation of value add, thus referring to the value added by implementing proper risk management functions. It also addresses issues such as performance indicators, and how these links up to the various role players in risk management.

2.6.15 King Committee on Good Governance (King I, II and III)

As Cadbury (1999) stated “Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals - the aim is to align as nearly as possible the interests of individuals, corporations and society.” The King Committee was established in 1992 to improve corporate governance by streamlining South African corporate governance with international best practice. The King I report was released in 1994, and aimed at promoting corporate governance and establishing certain recommended standards of conduct for boards and directors of JSE listed companies, banks, and certain state owned enterprises, such as municipalities. The report further took into account stakeholder’s interest and good financial practice, ethical, social and environmental practices (SAICA, 2013).

The King II report was released in 2002 and contained a code of corporate practices and conduct. It referred to several good corporate governance characteristics, namely, discipline, transparency, independence, accountability, responsibility, fairness and social responsibility (King, 2002:4-10).

King III report on governance was released in 2009 and the aim was to address issues arising from the Companies Act (71 of 2008). Some of the main issues discussed in the King III report are: Corporate governance and ethical leadership, audit committees, boards and directors, the governance of risk and information technology, compliance with rules, laws, codes and

standards, governing stakeholder relationships, internal audit, and integrated reporting and disclosure (Institute of Directors in Southern Africa, 2009:6-10).

2.6.16 Imperatives for policy implementation

According to Gold (1990:15), there are certain issues that must be taken into consideration when a public policy is implemented. Based on the type and nature of the policy, some of the following aspects must receive serious attention since they can affect the success of policy implementation:

- Training;
- Human resource capacity;
- Organisational structure;
- Financial implications;
- Systems;
- Documentation;
- Facilities;
- Research.

2.7 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

The MTBPS strengthens government's objective to address South Africa's social and development challenges by implementing a consistent, growth-oriented fiscal and budgetary framework. The statement not only provides a summarizing overview of macro-economic developments, it also addresses fiscal policy considerations. The medium-term expenditure framework (MTEF) proposed for the relevant budget year is outlined as well as tax policy developments are summarised. Some of the key elements regarding division of revenue between national, provincial and local government are also set out, and intergovernmental financial relations are shortly explained (Gordhan, 2011).

According to Steyn (2011:1), “South Africa’s balance of payments position is healthy and the public finances are sound. Against this background, government is able to respond to the downturn in the economy with an appropriate mix of tax relief, accelerated infrastructure spending and support for social services and municipal infrastructure development, together with an easing in monetary policy. These measures are aimed at supporting the momentum of growth and economic development”.

2.7.1 Budget reform and service delivery improvement

According to Gordhan (2011) Government’s promise to improve service delivery urgently needs modernisation and transformation ranging across public administration functions and systems. Some of the main challenges are managing budgetary and financial reforms. Significant progress has been made over the past years. During 1997, institutional and legislative changes were introduced. This led to new inter-governmental system including three spheres of government: National, provincial and local. These three spheres each have their own functions and spending responsibilities. They are also responsible for their own financial management and expenditure planning within the legislative framework.

Government planned three-year rolling spending plans for national as well as provincial departments under the MTEF during the 1998 budget. Medium-term budgeting strengthens the linkage between government’s policy choices, service delivery and its budget, which serves to reinforce political accountability and decision-making. Steps to deepen the budget process and better the alignment between policy, planning and budgeting allow government to consider policy priorities earlier in the budget cycle. Reforms to the division of revenue process enable the relevant national departments, provinces and local government to have earlier discussions on the division of revenue between the three spheres of government, thereby enhancing co-operative governance (Gordhan, 2011).

These steps are strengthened by the implementation of the Public Finance Management Act (1 of 1999) in 2000. The Act sets out a legislative framework

for modernising financial management and enhancing accountability in the public sector. Managers now have greater flexibility to manage, but are held accountable for the use of public resources to deliver services.

Looking ahead, Government will focus on steps to:

- Align and integrate the planning, budgeting and reporting processes;
- Develop and implement strategic and operational plans within agreed medium-term allocations, and reporting on past performance in published annual reports;
- Present measurable objectives and outputs to assess performance and progress in service delivery;
- Introduce generally recognised accounting practice and procurement reforms across the public sector.

The 2001 budget introduced the new national budget format. Gordhan (2011), states that “The Estimates of National Expenditure outline policy developments, legislation and other factors affecting expenditure, alongside departmental spending plans. Details of departmental outputs and performance measures provide key information on progress in service delivery. Similar provincial budget format reforms have contributed to enhanced accountability for provincial services over the last few years”.

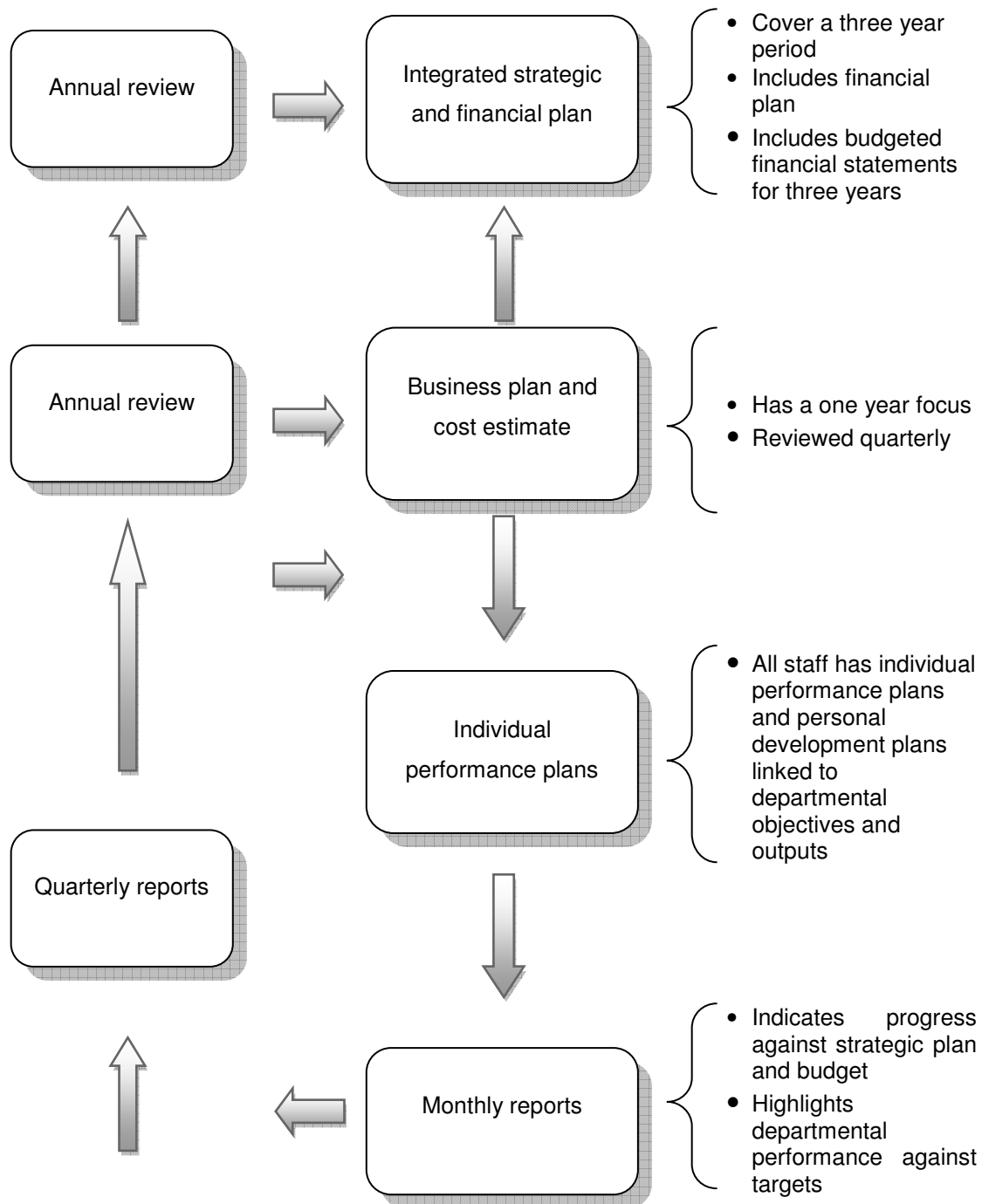
2.8 OTHER IMPORTANT FINANCIAL AND RISK MANAGEMENT FACTORS

According to the Management Advisory Board (MAB) of Australia (1997:1), risk management must form part of the bigger picture, namely the whole financial system. It is important to remember that any type of management must coincide with the relevant departments and topics. In the case of managing local municipal risks, the following aspects of financial management should be monitored closely in accordance with the risk management policies that are in place.

2.8.1 Integrated planning and budgeting

One of the most common statements made by organisations attempting to plan is that they do so in the absence of a clearly articulated financial plan, or if there is a plan, no linkage exist between that plan, the capital plan and budgets. Integrated planning can effectively link an organisation's or business financial, risk and capital plans across all levels of the organisation to achieve the common vision (Stack, 2012). This will include developing a business and financial plan that includes the management of multiple projects. The business or operational plan should be used as the vehicle to implement the strategy of a department. The financial plan should always be in-line with the MTEF, and this will form the budget of the operational plan during the ensuing financial year. Figure 2.4 illustrates this.

Figure 2.4: Integrated planning and budgeting cycle



Source: MAB, (1997:61) and South Africa, (2001:52).

2.8.2 Budgetary control

Budgetary control can be explained as the establishment of budgets for public institutions that relate the responsibilities of public managers to the requirements of a policy. It also addresses continuous comparison of actual

spending with budgeted results, either to secure the objectives of that policy, or to provide a basis for its review (AAT, 1992:280). Budgets are a controlling influence throughout the whole cycle of an institution's affairs. This control can be broken down into the following three main areas (AAT, 1992:280-281): control during preparation of budget; control during out-turn; and control by review.

2.8.3 Internal control system

A well-managed internal control system must display certain characteristics that are an indication of the effectiveness of the system. These characteristics will be discussed briefly (Department of State Expenditure, 1998:32-54):

- Timelines: controls should function in such way that it can prevent errors or irregularities from happening rather to detect them when they occur;
- Economy: internal controls should operate in such a manner that the benefits induced by the control out-weigh the cost of implementation thereof;
- Accountability: internal control should assist employees in demonstrating their willingness to carry out tasks;
- Placement controls: internal controls should make provision for the positioning of internal controls where they are the most effective;
- Flexibility of controls: the implemented internal control system must be flexible enough to allow for any changes and to exploit new opportunities.

2.9 CONCLUSION

Risk management is a broad term that can imply a number of practices. Within the public sector, one of the most important aspects of risk management is asset and revenue management. As seen in this chapter, revenue management can result in losses if not properly managed. The slightest deviation from the initial management policy can result in increased risk, and ultimately lead to loss of investment and service delivery. With reference to risk management practice, it is evident that risk management in

the public sector, especially with the financial implications that it has, should be essential in order to curb risks and losses in public institutions.

If proper reserve funds were not kept as backup in the event of high risks manifesting themselves, then institutions can go bankrupt, or in the case of a municipality, be placed under administration. One of the main reasons why risk management and financial management go hand in hand is that risk management is a tool for the prevention of poor financial management.

Risk management and the accompanying processes, techniques and methods, as well as the approaches, should be considered as a science on its own, and something that practitioners should definitely take note of. The financial and practical implications that risk poses to the management process of public institutions should urge line-managers and staff functionaries in the public sector to make a thorough study thereof.

In Chapter 3 a detailed study regarding best practice strategies and case studies at local municipalities and institutions worldwide regarding risk and financial management has been done.

CHAPTER 3

BEST PRACTICE STRATEGIES AND CASE STUDIES WITHIN LOCAL MUNICIPALITIES REGARDING RISK AND FINANCIAL MANAGEMENT

“Risk and time are opposite sides of the same coin, for if there were no tomorrow there would be no risk.” – Peter Bernstein.

3.1 INTRODUCTION

This chapter examines risk and financial management case studies and best practice strategies within local municipalities and other institutions. The scope is on a global scale, including developing and developed countries, and then eventually analysing local best practice and case studies within South Africa. The chapter aims to point out some of the best risk and financial management strategies as well as to identify some of the short-comings in these strategies.

3.2 GLOBAL STRATEGIES VERSUS LOCAL STRATEGIES

Global or developed countries best practice strategies form an important basis for local strategy formulation and, therefore, are an important factor to investigate. Emphases will specifically be on the concept of strategic management.

3.2.1 Strategic management defined

Strategic management can be explained as analysing initiatives taken by top management, and it specifically relates to the organisation of an institution’s vision, mission, objectives, developing plans, strategies and policies (Nag *et al.*, 2007:935-955). A strategy can also be seen as a set of actions taken by an organisation in order to develop or maintain resources, and use these resources to deliver products or services in such a way that it meets the organisation’s financial and other objectives with the least risk imposed. This can happen either by accident or by design (Haberberg *et al.*, 2008:1-10).

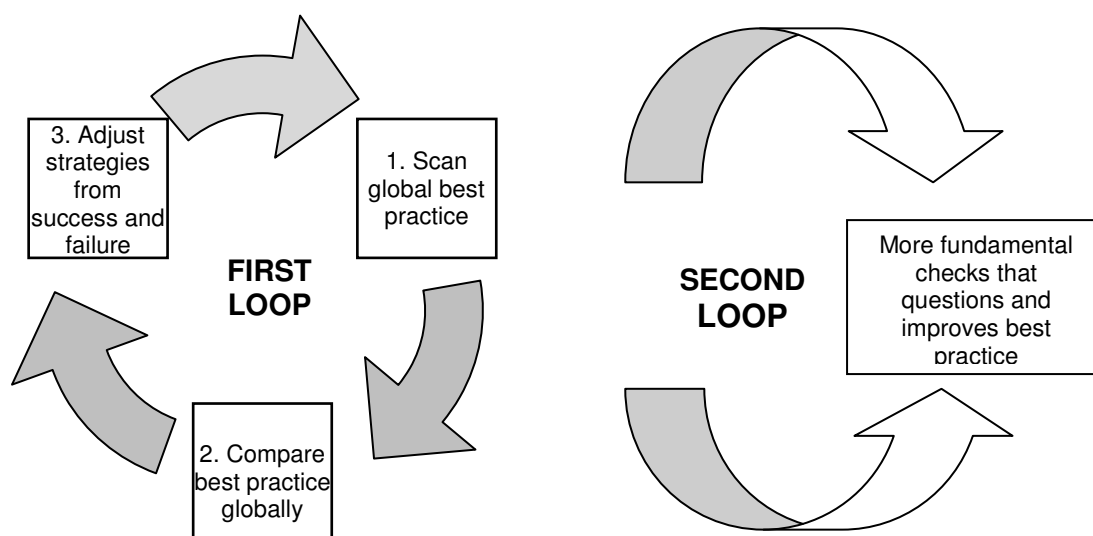
From these definitions, it can be stated that financial and risk management strategies and policies form part of strategic management. Chapter 2 discusses these concepts.

3.2.2 Linking local strategy with global strategy

Looking at global best practice strategies within other local municipalities or organisations will increase the chance of putting the best strategy into perspective. This is a learning process, whereas policies and strategies can be created either by accident or by design. This simply means that a strategy can be formulated either as a precaution or as implementation of certain policies or plans, or that a strategy may be born out of simple trial and error occurring within a certain policy or plan (Haberberg *et al.*, 2008:50-60). In practice, learning can take place in two phases. Phase 1, also referred to as first loop, involves an organisation or institution trying and testing new concepts, services or products as implemented by global or international stakeholders. Phase 2, or double loop, involves an organisation or institution re-appraising the outcome of the first loop, and altering the strategy to fit their exact needs. This can also apply to municipalities, as they can look at global municipal strategies and policies and fundamentally re-appraise these strategies to fit their specific needs and desirability (Lynch, 2011:70-78).

Figure 3.1 below depicts this concept.

Figure 3.1: Linking local best practice strategy with global strategy



Source: Lynch, (2011:78).

3.2.3 Linking local strategies with the African continent

Africa has 54 fully recognised countries, all of which are members of the United Nations (UN) and all countries, except Morocco, are members of the African Union (AU) (CIA, 2012). According to the United Nations Department of Economic and Social Affairs, approximately 33 of the 54 countries are considered to be Less Developed Countries (LDCs), and the rest can be defined as developing countries. The question can be asked: Why would it be important to look at LDCs and developing countries for best practice case studies? This is important as South Africa is also considered to be a developing country and to use best practice strategies from other LDCs or developing countries would be more relevant than, perhaps, those of first world or developed countries. There is, therefore, a need to look at some best practices in risk and financial management strategies globally within developed countries, as these could be a good learning school.

3.3 GLOBAL / DEVELOPED COUNTRIES CASE STUDIES AND BEST PRACTICE STRATEGIES

In this section, four case studies and two best practice guides are analysed from the developed or first-world countries. The cases and guides under investigation include:

- The best practice guide for risk management: Queensland Government (Australia);
- Best practice guide: a descriptive framework for public risk management;
- Case study: Local governments, unexpected depreciation and financial performance adjustment – Australia;
- Case study: Performance reporting by Malaysian local authorities: Identifying stakeholders needs;
- Case study: Re-opening the black box: The story of implementing a risk analysis method in a French local government;
- Case study: Different strategies – equal practice? Risk assessment and management in municipalities (Norway).

3.3.1 Best practice guide for risk management: Queensland government Australia

The Queensland government initiated a risk management best practice guide during 2002, which is revised and reviewed regularly. This guide was developed in line with the Australian Standard for Risk Management within the public sector, Management Advisory Board – Management Improvement Advisory Committee (MAB-MIAC) as well as the Financial Management Standards (1997), which are similar to South Africa's Municipal Finance Management Act (MFMA).

3.3.1.1 Principles and framework of the guide

All institutions and municipalities should have proper risk management policies in place, and these policies should be known and communicated to staff members and officials. The risk management policy should be linked to financial management, as well as other levels of management within the municipality, as these policies form the foundation for a good strategic management framework.

The risk management policy should address some of the following important issues:

- An analysis of acceptable and non-acceptable risks;
- Responsibilities for financial risk management;
- Objectives and basis for financial risk management within the municipality;
- Range the extent of financial risk management;
- Link between financial risk management and the strategic planning process.

After addressing or determining all of the above-mentioned issues, and applying the decision-making process within the municipality, the formal process of risk management, otherwise known as applied risk management, will start. This applied risk management procedure includes assessing risks throughout the lifecycle of any activity within the institution or municipality. The successful implementation of risk management will in turn reduce the probability of financial losses (Queensland Government, 2002:1-12).

3.3.1.2 Steps to design and implement a best practice guide

The following seven steps will form the design on how to implement a best practice guide:

Step 1: Develop a specific plan or project plan for the specific risk assessment activity. In the case of this study, the risk assessment activity would be financial planning.

Step 2: Identify areas of importance where responsibilities will be issued to each principle field. Table 3.1 summarises an example of this.

Table 3.1: Areas of importance within the financial department

Principle Field	Responsibility
Principle 1 Financial Plan/Policy	Mayor and Mayoral Committee, Municipal Manager, CFO/HOD: Finance
Principle 2 Budget Implementation	Mayor and Mayoral Committee, Municipal Manager, CFO/HOD: Finance
Principle 3 Continued Billing Standards	CFO/HOD: Finance, Risk Management Committee
Principle 4 Effective Financial Controls	CFO/HOD: Finance, Risk Management Committee, Internal and external auditors and accountants.

Source: Queensland Government, (2002:12).

Step 3: Design a checklist. This document should include a list of the minimum requirements for each principal field.

Step 4: Arrange for meetings/workshops with each entity identified in step 2 to determine the following:

- Are the minimum controls in place? If the answer is yes, is there room for improvement or could any other improvements be made to improve existing controls?
- If response is negative and the minimum controls are not in place the possible consequences must be determined with regard to how they occurred and the likelihood of them occurring again;

- Determine the level of risk for the controls that were not in place;
- Develop a timeframe for the implementation of the controls that were not in place.

Step 5: Implement and plan the required controls needed for the principles not in place that are exposing the municipality to high-risk levels.

Step 6: The remaining principles that are of lesser risk to the municipality must be implemented in conjunction with the detailed risk assessment plan.

Step 7: It is important that an on-going risk management environment must be maintained within the municipality (Queensland Government, 2002:12).

3.3.1.3 Implementation process

The following steps will explain how the implementation process works:

- Establish the organisational and strategic content – in order to do this successfully all the structures within the organisation/municipality must be understood;
- Establish the risk management content – this is done by looking at the scope, timing and location, stakeholders and resourcing of the specific process or risk being assessed;
- Develop risk criteria – this will determine how the risk will be measured. Some measures that can be used to evaluate risk includes operational impacts, regulatory impacts, business impacts and client perception;
- Identification of risks – this can be done by asking the questions: What could happen? Why and how could it happen? What tools can be used to prevent it from happening? An example of this is explained below:

What can happen? – Impacts/exposures are loss of revenue, incurring of costs, provision of services, and loss of reputation.

Why can it happen? – Because risks were not identified in time in order to prevent them from occurring.

Tools to prevent it from happening – Audits, surveys, past risk reviews, SWOT analysis, interviews and workshops.

- Analysis of risks – this is to focus on the extent of the consequences and the likelihood of the event occurring from a risk.

Analysis methods include qualitative, semi-quantitative and quantitative methods.

Consequence scale includes ranking risks into categories of major, moderate, minor and insignificant.

Likelihood scale includes ranking risks into categories of high, moderate and low. Examples of this will be shown in Chapter 4.

- Evaluation of risks – this must be done to compare the level of risk with the risk criteria established in previous steps.
- Treatment of risks – there are various treatment options available including risk aversion, transfer of risk, retaining of risk and reduction of likelihood or consequences.
- Monitoring and reviewing risk – it is important to continuously review and revise risk measures, as risks change and vary in degree.
- Implement continuity and recovery plans - this is done in the event of a risk realising. Measures must be in place to recover the loss generated from the risk occurring.
- Test and maintain the plan – this includes reporting and spot testing to ensure that the risk management plan will actually address the possible losses that might occur before they actually realise. This will form part of the monitoring and review stage (Queensland Government, 2002:13-20).

Figure 3.2 summarises this implementation process.

Figure 3.2: Risk management process



Source: Institute of Risk Management, (2009:4-7).

3.3.2 Best practice guide: A descriptive framework for public risk management

Hansson (2001:23) investigated the importance of having a clear framework of how public risk management is measured and managed. He indicated that there are two simple ideas to a risk management framework. The first idea distinguishes between the choice of standards and the enforcement of those specific standards. The second idea refers to systemising the specific regulation of enforcement by means of three main categories, namely the subject, object and way of regulation. He designed a three-step model as listed below.

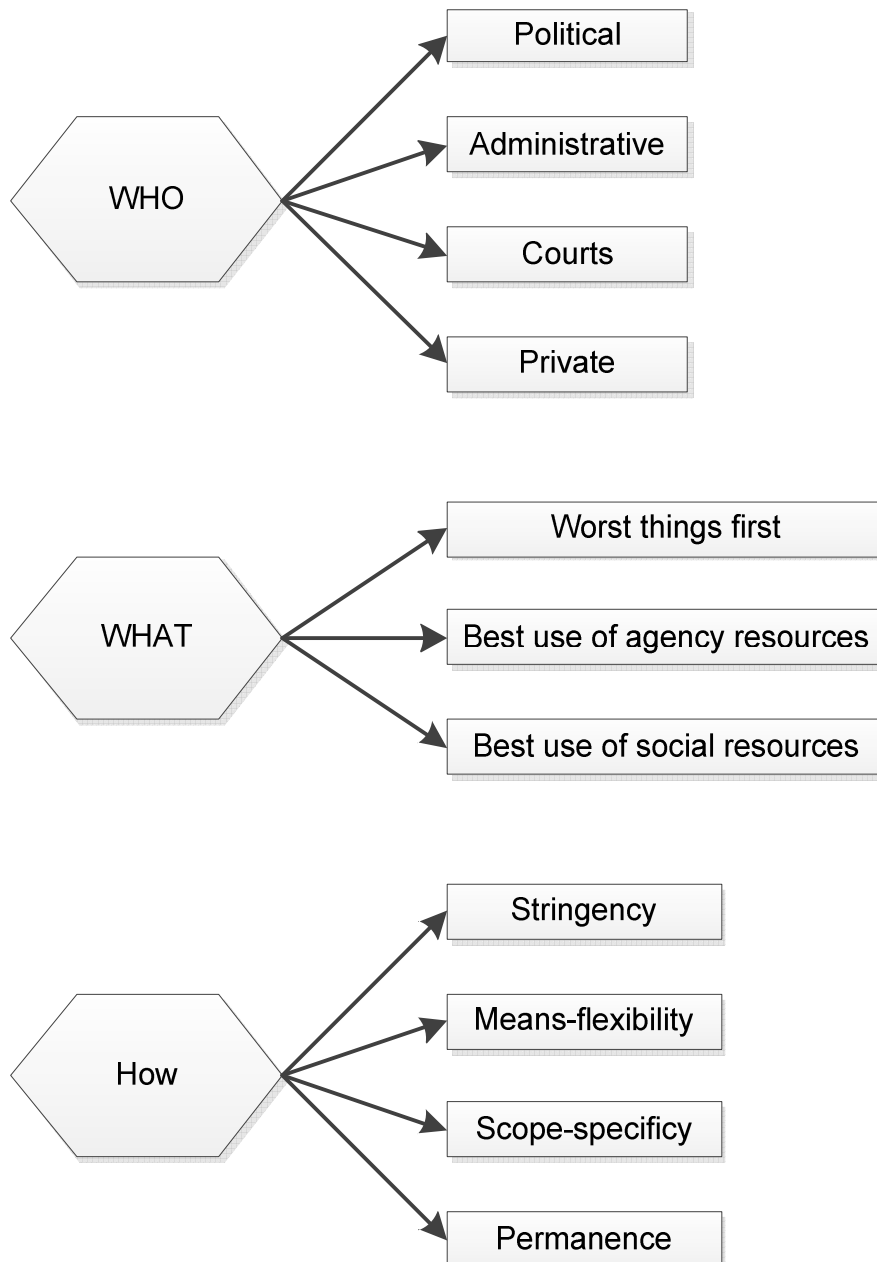
3.3.2.1 Three step model

In order to regulate public risk management effectively, or any other risk for that matter the following three step model can be used (Hansson, 2001:23).

- Who regulates or enforces?
- What is regulated or enforced?
- How is it regulated or enforced?

Figure 3.3 illustrates this concept.

Figure 3.3: Three step model for description and analysis of regulation



Source: Hansson, (2001:27).

3.3.2.2 Who regulates?

Regulations of risk can be explained as the decision making of rules and regulation to reduce or limit risk occurrence (Francis, 1993:49). Currently there are four groups of major regulators:

- Political regulators – include bodies such as governments on national, regional and local level. The nature of these levels may vary from country to country, depending on different constitutions within the country. These regulators can also be found on international levels such as the World Trade Organisation (WTO), further dividing this regulating authority into international and national categories;
- Administrative regulators – administrative regulators can also be divided into international, national, regional and local levels;
- Court regulators – these regulators may also vary from country to country and are more active in the United States of America (USA) than the rest of the world. USA agencies have to await the completion of litigation-driven judicial review, whereas other countries usually regard regulatory decision on risk-related issues as final;
- Private regulators – can be divided into three categories, non-regulatee, meaning independent from the regulated entities, associated regulates meaning set up by a regulated entity, and individual regulates meaning that the specific entity regulates its own rules and standards (Hansson, 2001:24-25).

3.3.2.3 What is regulated?

There are so many risk-related issues within an organisation; and therefore, only a selection of them can actually be regulated. Due to this, fact priority-setting of risks is very important. There are various principles for priority-setting, of which the most commonly used one is ‘worst things first’ or the highest priority is assigned to problems considered most serious within the organisation. This method sometimes neglects issues not considered very important, before they become very important. Therefore, other methods also need implementation such as ‘best use of agency resources’ and ‘best use of social resources’, as part of risk reduction (Hansson, 2011: 26).

3.3.3 Case study: Local governments, unexpected depreciation and financial performance adjustment - Australia

Pilcher and Van der Zahn (2010) investigated the possibility of practicing the accrual based accounting principle, as mostly done within private sector development and within the public sector. The word accrual can also be explained as accumulation of something, or referring to accrual within the accounting world, it means the accumulation of interest or investment over a certain time span (Haber, 2004:91).

3.3.3.1 Background of the case study investigation

One of the issues raised by Pilcher and Van der Zahn (2010:1-5) is to what extent; if existent, public sector departments are manipulating external reports due to pressure from stakeholders. As in private sectors, financial manipulation can easily take place within public sectors in the form of asset sales and in changes in subsidies. Various accrual accounts, that are discretionary, can be manipulated, but this study is focused on depreciation accounts being manipulated unexpectedly. This account was chosen due to the fact that the bulk of local government's balance sheets are made up of depreciable assets (property, plant and equipment). Local governments are not trading entities; therefore the predominant day-to-day operational activity can be seen as maintenance, keeping and development of depreciable assets. One of the most complicated issues for local government is estimating the value of capital infrastructure. Due to the large extent of capital infrastructure in most municipalities, capital infrastructure forms a large part of their asset base. Therefore, depreciation expense and financial performance could be problematic, and influence depreciation rates (Pilcher, 2009:76,163).

An intense financial investigation was performed and the following research method was used:

- Analysis covered three fiscal years;

- Data to calculate unexpected depreciation was gathered from annual reports supplied by New South Wales (NSW) local governments;
- 138 local governments were sampled by means of analysing their annual reports;
- If data were incomplete, that specific report was excluded (Pilcher & Van der Zahn, 2010:1-5).

3.3.3.2 Outcome of the study

As expected and already mentioned, gross property, plant and equipment comprised approximately 90 percent of the total assets. Gross property plant and equipment (GPPE) increased marginally between various terms and this can partially explain positive change in depreciation expense. Average unexpected depreciation was negative, and this can imply that NSW local governments, on average, typically adopted depreciation strategies to reduce financial performance (income decreasing). However, more than half of the sample had a positive, unexpected depreciation, and this suggests that a higher percentage of NSW local municipalities attempted to increase financial performance via unexpected depreciation (Pilcher & Van der Zahn, 2010:6-11).

3.3.3.3 Conclusion of the study

Manipulation of financial accounting can-not only be regarded as an issue within the private sector. The study indicated that unexpected depreciation varies across the sample investigated. However, conclusive evidence was not found to prove that all NSW local governments use unexpected depreciation as a mean of manipulating financial performance. It was found that local governments with high profits or high losses appear to be deflating financial performance by means of negative depreciation. It should be noted that various shortcomings do exist within this study, and that other research fields and instruments should be considered and taken into account when referring to the outcome of this study.

3.3.4 Case study: Performance reporting by Malaysian local authorities: Identifying stakeholder needs

Malaysia is classified as a developing country, and much of the reported international research on accountability has been focused on developed country stakeholders. However, it is very important to also investigate developing countries in order to determine their role in development of accountability in the international public sector accounting world (Coombs & Tayib, 1998).

3.3.4.1 Background of the case study investigation

The aim of this case study was to address performance reporting in such a way that public and other stakeholders can make informed decisions. This can only be done if quality information is provided. The provision of quality information is an important aspect of accountability (Coy & Dixon, 2004:79-106; Rutherford, 1992:265). Stakeholders can be seen as any group or individuals who affect or are affected by the activities of any organisation or institution (Freeman, 1984). Stakeholders, within the local municipal setup, can be described as taxpayers, voters, investors, service recipients, financiers, creditors, suppliers, upper level government, managers and trade unions to name only a few (Steccolini, 2004:327).

There is currently a lack of clear reporting guidelines, and local authorities mostly use the Malaysian Financial Reporting Standards in the preparation of their annual reports (Othman, 2001). The aim of this specific case study was to answer the following two research questions: 1) What type of information do stakeholders consider relevant for monitoring and assessing the performance of local authorities? 2) "How important is it for each informational item to be disclosed in local authority annual reports"? (Tooley *et al*, 2010:103-107).

An investigation was performed and the following research method was used:

- Questionnaire survey designed to gather insights into information types across a broad range of internal and external stakeholders within local authorities;
- Intensive literature review;
- Review of Malaysian statutory requirements;
- Recommendations by professional bodies;
- Review of annual reports;
- Sample data comprised 38 city councils (internal stakeholders) of which 1005 questionnaires were sent out to councillors, management and employees;
- 733 questionnaires were circulated as external stakeholder participation to the public, state, government and creditors (Tooley *et al*, 2010:108-116).

3.3.4.2 Outcome of the study

71 information items were identified for inclusion in the questionnaire, and some of these include goals and objectives of services, total expenditure, current assets, and future plans. 666 usable questionnaires were received (38.3percent) and from the 71 information items listed by the stakeholders, only one was considered below the level of quite important. 22 items were identified as being very important and it was determined that stakeholders want to have a clear view on future plans. Expenditure is very important to stakeholders (Tooley *et al*, 2010:111-117).

3.3.4.3 Conclusion of the study

It has become more important for local authorities to deliver sufficient public services. This can only be done with proper disclosure of information and performance management. The study concentrated on the nature, scope and importance of information that has to be disclosed to the stakeholders.

There was a consensus by respondents of the study that local authorities should communicate a broad spectrum of information, regarding not only financial performance, but non-financial performance as well. The most important non-financial issues that stood out were future orientated information such as future plans. It was also determined that the views of internal and external stakeholders differ dramatically, and that it is important to consider both these groups as both play an important role within local authorities (Tooley *et al*, 2010:117-119).

3.3.5 Case study: Re-opening the black box: The story of implementing a risk analysis method in a French local government

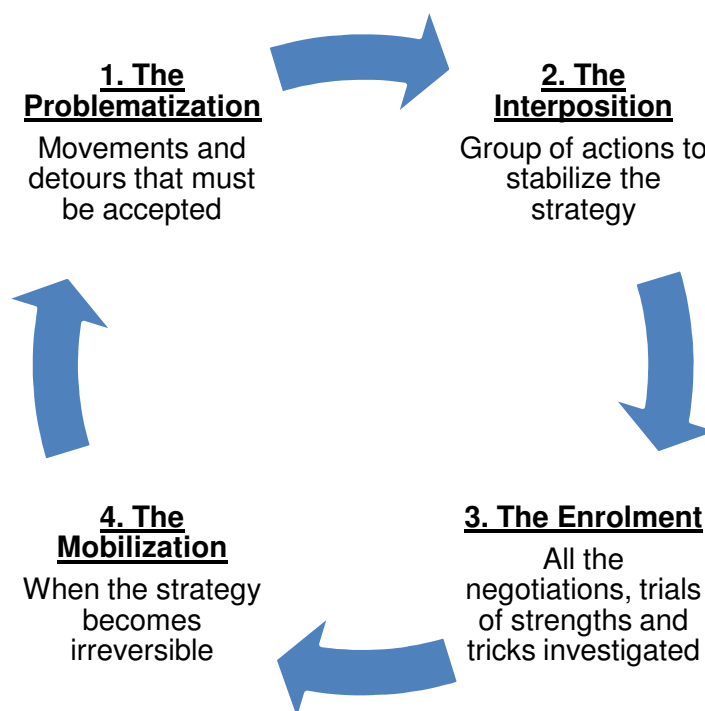
Rocher (2011:63) decided to investigate the trajectory of management devices or strategies within the French local government. The risk analysis method (RAM) was the main management device. It was developed in 2004 by the Public Accounting General Directorate (PAGD) of the French Ministry of Finance. The RAM was developed to address many shortcomings within the local municipality's financial framework by assessing peripheral risks emanating from entities of a local government. The method was designed to investigate quantitative measure and qualitative evaluation of financial, legal, contractual, social, technical and political risks likely to be caused by entities within a local government.

The RAM is a new device implemented in France, and this study was undertaken during its implementation stage in the urban community of Lille after its formal political acceptance. It is important to study the implementation phases of new management devices in order to determine whether the device or strategy is working (Chua, 1995:111).

The two main objectives of this case study was firstly to give explanation to the trajectory of the risk analysis method and the progress of its original goals, and how this management device or strategy was transformed and second, how the sociology of translation framework provides insights into the acceptance of management strategies (Rocher, 2011:64).

The case study was done using the Sociology of Translation Approach also known as the Latourian Approach or Actor Network Theory (Robson, 1991: 547). This approach or theory can be defined as a framework that relies on the idea that a management device or strategy is never accepted or rejected without any other alternatives. It is the result of many transformations or translations of stakeholders within an organisation. It can also be defined as a process where many conflicts of stakeholders are transformed into facts in order to reach a common interest (Callon, 1986:196-223). Callon further explains the acceptance of a management strategy by using four moments or elements within the translation process.

Figure 3.4: The translation process



Source: Rocher, (2011:64).

3.3.5.1 Background of the case study investigation

France participated in a process of decentralisation during 1982 to 1983. This led to many new competences within the local government structures. Some local authorities decided to outsource many of their services to public or private entities but doing this led to many risks. Working with private entities,

exposes the local governments to *inter alia*, credit risk, liquidity risk, and legal risk.

There are two direct consequences from these risks – financial and non-financial. An example of financial consequence could be explained by a public entity collapsing and triggering default on guaranteed loans. An example of a non-financial risk could be when an entity responsible for service delivery on behalf of the local authority faced operating, legal or operational risks, the service might not be rendered in time and the local authority will not have the resources to deliver the service.

One of the main problems encountered by local authorities was that they had a lack of financial information regarding the possible risks. The design and intention of the RAM was resolving these problems.

The research methodology chosen for this research study included the following:

- A working group consisting of many stakeholders from various sections within the local municipality was formed to implement the RAM;
- Data collection for this study was obtained by observing and participating within this group for almost two years from November 2004 to July 2006;
- Negotiations, discussions and arguments were analysed by the researcher by means of taking extensive notes during all meetings.
- Interviews were conducted in order to validate the researcher's observations;
- A large source of literature reviews was included as background (Rocher, 2011:67-72).

3.3.5.2 Outcome of the study

RAM was presented officially to local governments in 2004, and by the end of that year, eighteen local governments engaged in the implementation of RAM.

There were two objectives of RAM: Firstly RAM was developed to improve financial information of local government, and second to change the relationship with local government bodies. RAM intended to streamline risk definitions and identification criteria within various departments within the local government and financial institutions. Methods of measuring risk were streamlined, and it assisted in helping officials to not make choices based on political issues (Rocher, 2011:70-75).

3.3.5.3 Conclusion of the study

One of the aims of this study was to critique the idea that management strategies are well-defined objects that are accepted without any other alternatives. Strategy formulation has to be seen as a process of formulation and transformation.

During the four phases of the translation process it was identified that phase one and two (problematization and intersement/interposition phases) were politically driven. During phase three (enrolment phase) the RAM was progressively modified to make exception for the diverse group of stakeholders. RAM became a powerful tool to sensitise elected officials to possible financial consequences of their public choices (Rocher, 2011:76-80).

3.3.6 Case study: Different strategies – equal practice? Risk assessment and management in municipalities (Norway)

The basis of this study is on the risk related to safety and emergency planning. Although not directly linked to financial management it is still a risk, and issues arising within this field, if proper risk management measures were not followed, could result in serious financial implications for the municipalities. The result of this case study can also be used to prove that other types of strategies might differ from various councils, but in fact, they also may have similar measures and policies in place at the same time (Nilsen & Olsen, 2005:37-40).

3.3.6.1 Background of the case study investigation

Nilsen and Olsen (2005) investigated two municipalities with different organisational strategies in risk assessment and management to prove that they have very similar operational practice levels. Klepp and Time Municipalities are both situated in Norway.

Klepp used a bottom-up strategy using mini-risk analysis (MRA) (Dynes, 1993:175) and Time used a top-down strategy based on rational planning approach and implemented a risk and vulnerability analysis (RAV). The bottom-up strategy (MRA) means that workers at operational level identify and manage their own risks. RAV refers to a top-down strategy and means it was carried out on a strategic level and top management within the municipality identified potential risks. Although these two municipalities had very different strategies in place, practice and measures at operational level is very similar in both municipalities. The reason for this was investigated (Nilsen & Olsen, 2005:40-43).

The research methodology chosen for this research study included the following:

- Ten core interviews were conducted within both municipalities, and the respondents were chosen from three organisational levels – strategic, tactical and operational level;
- Additional interviews were conducted with external stakeholders such as teachers, doctors and the project leader of the MRA;
- Extensive literature information was used, such as municipal plans, annual economic reports and written material on risk and safety regulations (Nilsen & Olsen, 2005: 43-45).

3.3.6.2 Outcome of the study

Although different strategies were used, examples of similar practice existed within both municipalities. Some of these similarities included that both had to adapt to government rules and regulations, quality systems are built on the

same logic, quality guidelines are similar, and both have similar internal control compliance.

An argument arose regarding the functionality of the two strategies. The MRA was said to have empowered the people on ground level and the RAV was seen as a tactical strategy imposed from top management. However, even though they differ so much, after assessing the information obtained from the interviews with respondents, both strategies were effective in their own way and had a positive outcome (Nilsen & Olsen, 2005:41-46).

3.3.6.3 Conclusion of the study

Although strategy might differ, existing laws and regulations may explain why practice can be similar. The top-down strategy, or expert approach, is based on rational planning and does not influence operational level. This strategy can be very difficult to implement in a multi-purpose organisation.

The bottom-up strategy improves performance and risk awareness. In order for the bottom-up strategy to be effective, proper training on ground level needs to be done. Both levels of management (top and bottom) need to work together to improve risk management strategy within an organisation (Nilsen & Olsen, 2005:45-46).

3.4 AFRICAN CASE STUDY AND BEST PRACTICE STRATEGIES

In this section, one best practice guide will be analysed that include many African countries, namely best practice guide to municipal finance.

3.4.1 Guide to municipal finance

The UN-Habitat developed this guide with the main purpose of improving urban human settlements by means of adopting pro-poor policies and strategies. They aim at doing this by developing a human settlement financing tool and best practice series that focuses on financing these human settlements within Africa.

3.4.1.1 Objectives of the guide

Due to the increase in urbanisation within developing countries, pressure is increasing within municipalities to create and provide services, infrastructure and housing. The only way to achieve this successfully is by sound financial planning within the municipality.

Objectives include:

- To introduce stakeholders to current issues in municipal finance around the world. Stakeholders may include public society, professional practitioners, government official and policy makers and academics within the UN member states;
- To show the importance that municipal finance plays in upgrading and upholding service delivery;
- To focus on sustainable development;
- To indicate new trends in financing services;
- To provide policy makers with good economic tools in order to be able to analyse public financial issues (Slack, 2009:1).

3.4.1.2 Municipal finance issues and challenges

Some of the financial issues and challenges highlighted by the UN include:

- Rapid urbanisation – it is believed that by 2050 approximately 70 percent of the total population will be living in urban areas. During the 1950s approximately 33 million people lived in urban areas within Africa. This figure rose to 107 million in 1975, and 373 million in 2007, and is increasing at a rapid rate. It is expected that the urban population will triple in Africa over the next 40 years. These estimated figures put huge pressure on municipalities to increase their services delivery outputs, maintaining risks and still keeping a positive financial balance. There is a

large infrastructure deficit already in most African countries, including South Africa (Slack, 2009:10-11).

- Globalisation – without the correct infrastructure and support systems such as transportation, policing, sanitation and water purification, to name only a few, a city cannot be globally competitive, as it will not attract many businesses. Without these businesses, cities and towns will also experience a loss in highly trained human capital. These people or ‘knowledge workers’, in many instances, hold the key to good economic growth within an area or town (Florida, 2002:14-25). The question is whether this will have an impact on the finances of municipalities. The answer is quite simple – loss of income revenue due to less high-income people and businesses paying taxes and levies.
- Millennium development goals – almost all of the tasks of municipalities and governments form part of the Millennium Goals as set out by the UN during 2000. These include delivering of basic services such as water, and sanitation to all people, supplying houses to more people and providing basic health care to more people (UN, 2008b).
- Costs of urban sprawl – urban sprawl can be explained as the expansion of an urban area not directly next to an existing urban area, also known as leapfrog development (TCRP, 1998:6). This type of uncontrolled growth threatens the financial stability of a municipality because it puts pressure on the current infrastructure as well as the environment (Slack, 2009:13).
- Inadequate revenues to meet expenditure needs – without proper funding and revenue, municipalities cannot uphold a quality level of services. Over the past 20 years, more and more responsibilities have been passed over to municipalities, and in many cases, the responsibilities do not meet the revenue available to successfully complete these responsibilities (Bahl & Linn, 1992). To add to this problem, local governments in less developed countries, many of them in Africa, face bigger challenges when raising finance. The reasons for this include a weak revenue base, very few own source revenues, they often lack incentives to produce their own revenue,

and in many cases they do not use the little income they do have wisely (Bird & Slack, 2004).

3.4.1.3 Recent trends in municipal finance

The recent trends to improve and address the demands for accountability and transparency at local level include:

- Fiscal decentralisation – this refers to the shifting or transferring of financial responsibility from central government down to local government and in turn, the local government will then become responsible for delivering an increasing number of services. Decentralisation has been practiced for many years but is relatively new in less developed countries. Decentralisation is supposed to increase service delivery and decrease poverty related issues (Ingram & Hong, 2007:3-16). However, this sometimes does not happen as planned because often, the expenditure responsibilities far exceed the income base available.
- Land and property tax – many municipalities around the world rely on property tax as a large portion of their income, and it is regarded as an important tool for raising income at local level. One of the major problems some municipalities have is that land uses and land rights are often not in-line with each other, thus causing the council to levy the wrong property tax. For example, if a person is living on a residential property he will be charged for residential taxes, but if he is illegally running a business from that premises the municipality is losing out on the higher property tax that should have been paid for a business right (Bird & Slack, 2007:7-17).
- Public private partnerships (PPP) – in many cases, municipalities turn to private funders to assist in funding large projects such as infrastructure upgrades. This is done to improve the effectiveness and efficiency of delivery. One of the main advantages of joining in a PPP is to relieve some financial burdens on the municipality's side and to minimise municipal debt (Tassonyi, 1997:1-5).

- Accountability in budgeting – increased accountability means that councils need to involve the public in determining how the revenue will be raised and how the budget will be spent. By doing this, residents are included and represented in the decision-making process by the municipality, officials can be held to account for any good or bad budget decisions made, and it also increases transparency (Slack, 2009:16).
- Improved financial management – due to an increase of pressure from the public, increase in responsibilities, and limited resources within municipalities the need for increased and improved financial management has become a major issue. Because of the imbalance between income and expenditure, it has become more important for money to be spent very wisely. The introduction of new and improved financial reporting techniques and stricter laws has resulted in somewhat improved accounting and budgeting methods. However, many municipalities, especially in rural areas, are still wasting money: also known as fruitless expenditure. Ways to monitor this are by implementing performance-based budgeting to monitor spending of resources, and by implementing performance indicators (Slack, 2009:16).
- Improved risk management – as was the reasons given above for improved financial management, so too there will be an increase in risks due to more responsibilities and limited resources within municipalities. With more responsibilities and increased pressure on service delivery there will be a direct link between increases in risk financial well-being in a municipality. These risks need to be planned for and managed correctly in order to minimise financial and other losses (Slack, 2009:17-25).

3.4.1.4 Conclusion and summary

The United Nations successfully compiled a very useful guide using statistics from OECD (Organisation for Economic Co-Operation and Development) countries, many of which are Africa Countries. The guide addresses some major financial issues and challenges, and provides high-quality trends and tools to use that can combat some of these issues.

Some of the trend and tools includes:

- Proper implementation of fiscal decentralisation;
- Successfully collecting land property tax at the right time and right rate;
- Entering into public private partnerships;
- Ensuring transparent and accountable budgeting;
- Improving financial management methods;
- Improving risk management tools and policies.

The guide has additional useful information that was not addressed in this study, and for further reference please refer to the original document, Guide to Municipal Finance – UN-Habitat.

3.5 LOCAL CASE STUDIES AND BEST PRACTICE STRATEGIES

In this section, four case studies and best practice strategies within South African municipalities will be analysed. The cases that will be investigated include the Risk Management Strategy – Ekurhuleni Metropolitan Municipality, Umdoni Local Municipality Integrated Development Plan (IDP), Kannaland – Enterprise Risk Management Policy and Midvaal Local Municipality Integrated Risk Management Policy. All of these municipalities adopted the eight Batho Pele principles (2007d:26-29) as briefly summarised below:

- Consultation – the municipality should be open for consultation by the public;
- Service standards – the municipality should indicate level of service to be provided, and keep by their promise;
- Access – all citizens should have fair and equal access to services available to them;

- Courtesy – all citizens should be treated with respect;
- Information – the municipality should provide citizens with proper information regarding council related issues;
- Openness and transparency – administration must be an open book;
- Redress – citizens should receive positive response on complaints issued and a speedy remedy;
- Value for money – citizen's money should be spent wisely.

3.5.1 Case study: Risk management strategy – Ekurhuleni Metropolitan Municipality (EMM)

Ekurhuleni Metropolitan Municipality has adopted a process of risk management across all sectors of the municipality. According to Mekgwe (2009:2) this was done in the light of the principles of good governance as set out by the Municipal Finance Management Act (MFMA) (56 of 2003), as well as other government legislation such as National Treasury's Risk Management Framework, Municipal Systems Act (MSA) and Minimum Information Security Standards (MISS).

3.5.1.1 Introduction to the strategy

Financial risk is one of the major risks that need to be limited but this is not the only risk within municipalities. The EMM identified the following additional broad risk categories:

- People;
- Strategy;
- Technology;
- External environment and natural factors;
- Processes;

- Legal compliance.

The EMM has adopted an enterprise risk approach. Enterprise risk management (ERM) means that the risks are managed throughout the institution rather than only in selected departments or business areas. Risks cannot be managed in isolation and they need to be integrated in a global or enterprise management strategy (Mekgwe, 2009:3).

3.5.1.2 Objectives of the EMM risk management strategy

The EMM identified ten main strategy objectives:

- Ensure that the strategy is understood properly by implementing an integrated approach and by adopting a common process, language and methodology;
- Comply with all legal issues;
- Ensure that good ethical conduct and governance are followed;
- Use risk management as a tool for capacity building and transformation;
- Ensure value based management;
- Ensure that a risk management culture be established across all level and spheres of management;
- Improve knowledge and information management;
- Reduce inefficiencies and fight fraud and corruption;
- Ensure that best practice regarding improved governance and accountability is always followed;
- Provide proper risk management to better service delivery and improving efficiency (Ekurhuleni Metropolitan Municipality, 2009:4).

3.5.1.3 Risk management model/strategy

The following are basic guidelines on how EMM's risk management model/strategy was compiled and how it works.

- What the model is based on. The model is based on the fact that organisations, in this case the EMM, have similar or common risks, although the degree or magnitude of the risks might vary. Because of this the model or strategy should be transparent and developed in a common standard, language and process to ensure that everyone within the various levels of the organisation understands and can adopt the strategy. A risk management model can only be successful if supported by a good and efficient integrated performance management system, information management system and functional decision making within the whole organisation (Ekurhuleni Metropolitan Municipality, 2009:5).
- Ownership of risk. In order to ensure successful risk management there must be a responsible person or committee in charge of the risk management model/strategy. In the case of the EMM, the accounting officer has the main responsibility, and some of the responsibilities have been delegated to senior management. The municipal manager is the custodian of risk management (Ekurhuleni Metropolitan Municipality, 2009:6).
- Key pillars of risk management. There are various key pillars within the risk management environment and these include people, processes and systems. It is important to remember that an efficient strategy must have these core elements (Ekurhuleni Metropolitan Municipality, 2009:7).
- The process. Due to changing factors the probability of a risk occurring changes regularly. Due to this, there should be close interaction with internal and external stakeholders in order to forecast and anticipate the probability of certain risks. The risk management process should consider the following objectives, high-level goals of the organisation resulting in good strategy, efficient and effective utilisation of operations, reliability of

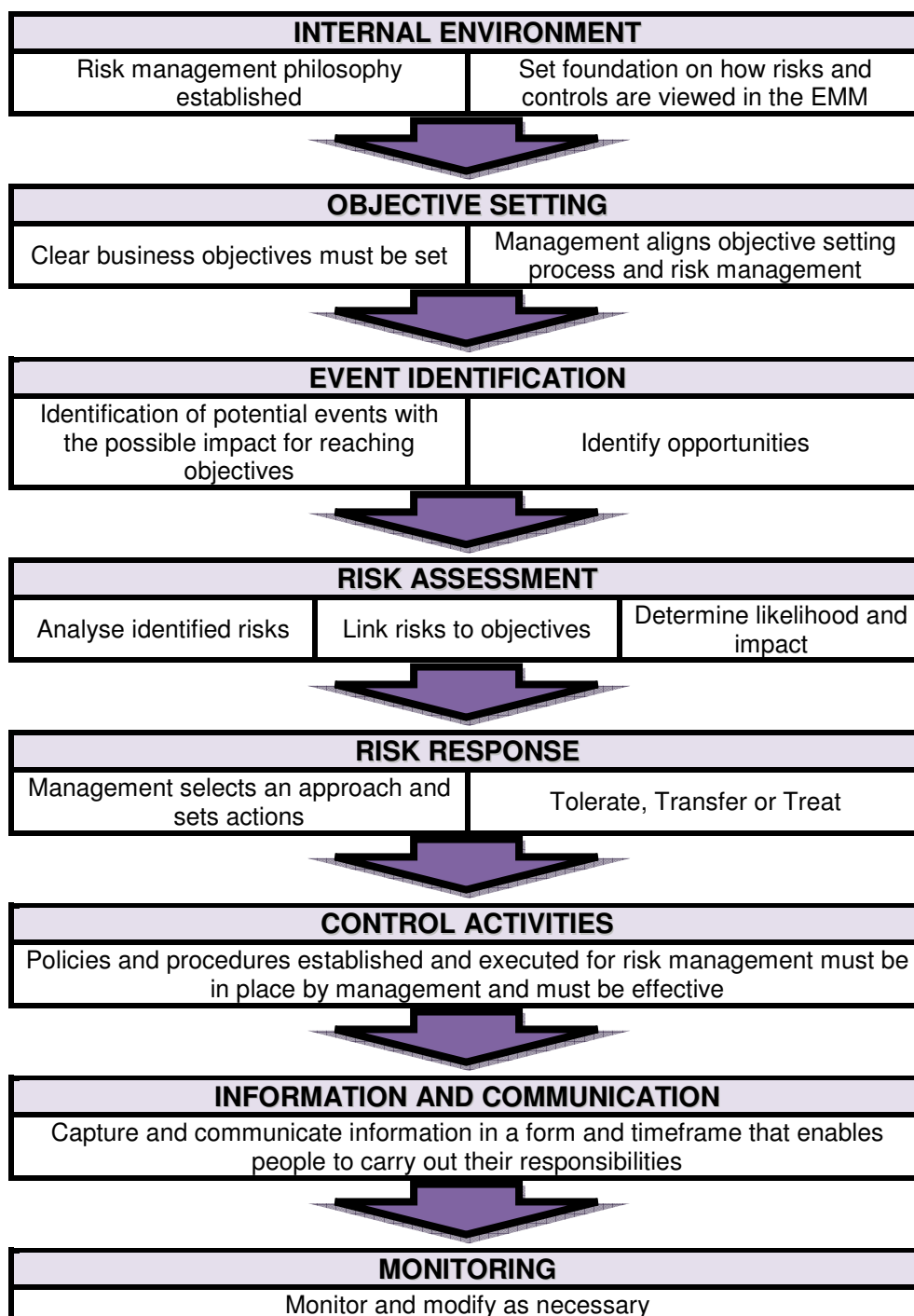
reporting, and proper compliance with regulations and laws (Ekurhuleni Metropolitan Municipality, 2009:8).

- Risk appetite. It is the municipality's responsibility to determine the risk appetite. In accordance with the MFMA, municipalities should have a low-risk appetite (high-rated risk) for all losses resulting in negligence or fruitless expenditure. In general, risks with low magnitude can be accepted, medium magnitude must be managed, and high magnitude must be reduced or avoided.
- Risk response. After the risk has been identified there are a number of possible responses, namely tolerate, transfer or treat (3 Ts). The level of risk acceptable by the municipality will determine the tolerant risk, and this will normally be the benchmark (Ekurhuleni Metropolitan Municipality, 2009:10).
- Risk control. Risk control can be measured on various levels namely the impact of the risk and these are classified as insignificant, minor, moderate, major or critical. The second level is likelihood, and this can be classified in categories of rare, unlikely, moderate, likely and common. The third level is inherent risk exposure, or the impact, times the likelihood and the categories for these are high, medium or low (Ekurhuleni Metropolitan Municipality, 2009:11).
- Other issues to be considered
 - Risk registers: in order to have proper risk management procedures, proper records and documentation must be kept;
 - Risk management office (RMO): the RMO should be located in the office of the accounting officer;
 - Relationship with internal audit: the relationship between the risk manager and the internal audit committee should be good and ongoing;
 - Committee and forums: proper risk management committees and forums must be in place to ensure good management;

- Risk management information system: proper systems and tools must be in place to ensure that information can be accessed and spread easily (Ekurhuleni Metropolitan Municipality, 2009:10-14).

Figure 3.5 summarises the process described above.

Figure 3.5: Risk management process as implemented by EMM



Source: Ekurhuleni Metropolitan Municipality, (2009:9).

3.5.1.4 Conclusion

This risk management strategy provides a simplified and easily implementable framework on how risk can be managed. The strategy should be reviewed regularly and updated should any major factors, internally or externally, occur.

3.5.2 Case study: Risk management policy and strategy – Umdoni Local Municipality

Umdoni Local Municipality (ULM) is situated within Kwa-Zulu Natal, situated approximately 50 km south of Durban. ULM also has adopted a process of risk management across all sectors of the municipality. According to Ktlwela (2011:63), legislation under which the strategy was written includes Section 62(1)(c)(i) of the Municipal Finance Management Act (MFMA) (56 of 2003), as well as section 3.2.1 of the Treasury Regulations, which indicated that: “the accounting officer must ensure that a risk assessment is conducted regularly to identify emerging risks.”

3.5.2.1 Introduction to the strategy

The risk management strategy was developed with eight main objectives or distinctive elements. This was done in order to give effect to the underpinning risk management policy. The objectives represent the macro organisational strategy adopted by ULM (Ktlwela, 2011:63).

3.5.2.2 Objectives of the ULM risk management strategy

The eight elements or objectives of the risk management strategy are listed below:

- Controlled environment – to create an environment that is facilitating, supportive and conducive for the practice of effective risk management;
- Objective setting – objectives should be in-line with the mission and vision of the municipality;

- Risk identification – threats and opportunities should be identified that can result in objectives not being achieved in the most efficient and economic way;
- Risk assessment – risks must be assessed in terms of impact and likelihood, in order to determine the specific priority of the risk;
- Risk response – the department must determine how they will respond to the risks;
- Communication and information – proper communication and information access must be provided to employees to perform risk management effectively;
- Control activities – implement activity control in line with the risk response plan;
- Monitoring – specific risk management, as well as the whole system of risk management, must be monitored by the relevant managers (Umdoni Local Municipality, 2011:64).

3.5.2.3 Risk management model/strategy

Figure 3.6 summarises the ULM risk management strategy:

Figure 3.6: Risk management strategy implemented by ULM.



Source: Umdoni Local Municipality, (2011:64).

3.5.2.4 Conclusion

It is noted that both Ekurhuleni Metro Municipality and Umdoni Local Municipality have similar objectives in place, within the risk management strategy. These objectives can form the basis of any risk management strategy.

3.5.3 Case study: Risk management policy and strategy – Kannaland Local Municipality

Kannaland Local Municipality (KLM) is situated within the Western Cape and has its head office in Ladismith. KLM has adopted a process of enterprise risk management (ERM) across all sectors of the municipality. As with the previous two case studies KLM has also adopted their risk management plan/strategy under the following legislation: Section 62(1)(c)(i) of the Municipal Finance Management Act (MFMA) (56 of 2003), King III Code of

Corporate Practices and Conduct 2010 and various other South African legislation (Kannaland Local Municipality, 2011:3).

3.5.3.1 Introduction to the strategy

KLM has as its main risk management policy statement to maintain a positive approach on risk management, and to not only look at risks relating to negative events, but also at the risk of not capitalising on a strength or opportunity (Kannaland Local Municipality, 2011:4).

3.5.3.2 Objectives of the KLM risk management strategy

The five key objectives of the risk management strategy are listed below:

- The risk-taking plan must be aligned in order to improve the goals and objectives set by council;
- The reputation and brand name of the municipality must be protected at all times;
- To create, protect and enhance the value that stakeholders have, as well as the net worth of the municipality, by properly implementing effective risk management that may impact the success and development of indicators;
- To promote risk awareness within the various departments, and ensure and improve risk transparency to stakeholders;
- To identify opportunities where risk management can be improved which will ensure sustainable service delivery and increase business opportunities (Kannaland Local Municipality, 2011:4).

3.5.3.3 Risk management policy/strategy

The following aspects of the policy were identified:

- Types of risks – Strategic risk, operational risk, reporting risk and compliance risk;

- Parties responsible for managing risk – accounting officer, managers, a chief risk officer and the enterprise risk management unit.
- Authority – the chief risk officer (CRO) and his staff will have certain authorities such as unrestricted access to council and management documents;
- Accountability – the CRO will be accountable for certain issues such as reporting issues to controlling activities;
- Importance of practicing risk management – to align risk appetite and strategy, avoid risks, link growth to risk and return, better risk response decisions, and provide integrated response to multiple risks (Kannaland Local Municipality, 2011:8-10).

KLM has simplified their risk management model but the concept remains the same.

Figure 3.7 summarises the KLM risk management strategy:

Figure 3.7: Risk management policy as implemented by KLM



Source: Kannaland Local Municipality, (2011:11).

3.5.3.4 Conclusion

Kannaland Local Municipality is an excellent example of a municipality that has worked hard to create a well-balanced risk management policy. As also seen within the risk management strategy of Ekurhuleni Metro Municipality and Umdoni Local Municipality, the similarities of the risk management objectives continue to stand out.

3.5.4 Case study: Integrated risk management policy - Midvaal Local Municipality

Midvaal Local Municipality (MLM) is situated within Gauteng, approximately 50 km south of Johannesburg. MLM has adopted a process of integrated risk

management, meaning that all levels of the municipality, from clerical up to mayoral level, have responsibility and accountability towards proper risk management. Legislation underpinning the strategy includes the Municipal Finance Management Act (MFMA), (56 of 2003) as well as King II Code on Corporate Practice and Conduct 2002. (Midvaal Local Municipality, 2011:1).

3.5.4.1 Introduction to the strategy

MLM describes the scope of the policy as intended to cover the whole municipality as a local government structure. The important key goals were determined and incorporated into their strategic objectives. (Midvaal Local Municipality, 2011:2).

3.5.4.2 Objectives of the MLM risk management strategy/model

The key objectives or aims of the integrated risk management strategy include the following:

- To maintain effective, transparent and efficient systems of risk and financial management;
- To maintain control of internal audit;
- To ensure effective and efficient economical use of resources within the municipality;
- To provide a proper risk management framework to ensure all departments and managers operates with a strong risk management culture;
- To ensure that the policy becomes an important part of good corporate governance;
- To ensure the continued improvement of risk management which will improve the degree of certainty in achieving objectives;
- To provide proper and good risk management tools that will support management's decision-making responsibilities;
- To ensure that the processes of risk management exists in a continuous improvement and feedback environment (Midvaal Local Municipality, 2011:5-6).

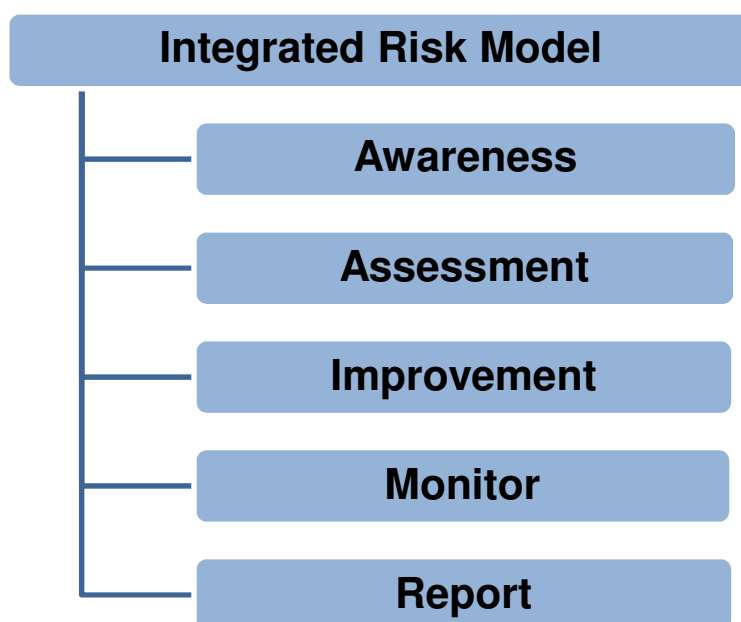
3.5.4.3 Integrated risk policy/strategy

The following integrated risk model was implemented:

- Awareness – this is one of the key components in order to identify and take appropriate mitigation of risks. One of the main awareness tasks is improving training and communication issues such as promoting awareness, providing skilled resources to manage risk, ensuring a culture of risk awareness, and providing proper training regarding legal issues;
- Assessment – the main assessment of risk includes proper identification of threats to an organisation. Based on this, departments should ensure that risk is assessed according to the formal risk management methodology, business risk profiles should be regularly assessed, and the financial cost of controlling a risk should be balanced;
- Improvement – risk management can never be seen as a once-off event. Instead, it should be improved continuously. Risks should be reviewed on a regularly basis. Minimum department management considerations should include ensuring correct counter-risk measures are in place, proper feedback from internal reports is done, incidents are properly logged and documented, measure are in place to reduce the overall risk profile, and continuity plans are in place;
- Monitoring – the accounting officer will report to the Risk Management Committee (RMC);
- Reporting – reporting is critical to ensure that risks are maintained properly. This is done on various levels such as strategic level and operational level. (Midvaal Local Municipality, 2011:7-10).

Figure 3.8 summarises Midvaal Local Municipality's integrated risk model.

Figure 3.8: Integrated Risk Model as implemented by MLM



Source: Midvaal Local Municipality, (2011:8-10).

3.5.4.4 Conclusion

Midvaal Local Municipality follows an integrated risk management approach, but apply very similar risk management principles as the other municipalities, as seen in the case studies.

3.6 CONCLUSION AND SUMMARY

Sound financial management cannot take place without proper risk management strategies in place. As can be seen in all of the above case studies and best practice guides, risk management is an integral part of management strategic planning processes. Without this no organisation will run effectively and smoothly.

Risk management is also important for establishing future plans in order to minimise or avoid costly losses of valuable resources. As seen from the global case studies, many issues within municipalities exists that can cause financial losses. The investigated cases are only a small example of problems and issues that can exist within a municipality. Some of these financial and risk

related issues address the matter of unexpected depreciation and financial performance adjustment, risk analysis methods, how to effectively use performance reporting to improve financial standing and how different strategies within municipalities can still have the same outcome.

The financial best practice guide formulated by the United Nations was used to look at Africa and how some of the risk and financial issue could be resolved. This guide was compiled using many African and other OECD countries as a statistical analysis sample.

Local best practice strategies, policies and models were analysed and it was determined that most of South African municipalities follow very similar strategies. Chapter 4 will include a survey regarding risk management at Sedibeng District Municipality, as well as identifying shortcomings and problems.

CHAPTER 4

STATUS QUO ANALYSIS AT SEDIBENG DISTRICT MUNICIPALITY

“If you treat risk management as a part-time job, you might soon find yourself looking for one.” – Deloitte white paper

4.1 INTRODUCTION

This chapter will investigate the current status quo regarding risk management tools and strategies within Sedibeng District Municipality, as well as analyse the questionnaires and interviews held with various officials employed by the municipality. The chapter aims to point out some of the strong points within the risk management framework as well as some of the shortcomings.

4.2 BACKGROUND OF SEDIBENG DISTRICT MUNICIPALITY

Sedibeng District Municipality, situated in southern Gauteng, comprises three local municipalities, namely Emfuleni Local Municipality, Lesedi Local Municipality, and Midvaal Local Municipality (see Appendix I). The geographical area is 4173 km², with an estimated population of 843 006, as per the National Spatial Development Perspective (NSDP 2006:24-30). The size of the economy within the Sedibeng DM is measured by means of calculating gross value added (GVA) activities. The GVA is the total value of all final services rendered and goods produced within the area. The GVA has increased from R9 466 859.00 in 1996 to R22 799 699.00 in 2007 (Sedibeng District Municipality, 2012a:1-20).

The Sedibeng District Municipality is a category C municipality located in close proximity to the commercial and industrial heartland of Gauteng. It is approximately 50km from the Johannesburg CBD and O.R. Tambo International Airport. It borders on three provinces, namely Mpumalanga, Free

State and North West. The economy of the area is dominated by the metals, energy and construction sectors but also includes some agricultural activities and a large sector of tourism and leisure as the Vaal dam and Vaal river are located within this municipal area. The primary sector predominantly comprises the agriculture and mining sectors, which together contribute only 2.2 percent of the GVA. The secondary sector includes manufacturing, electricity and construction, and contributes 48.6 percent to the GVA. The tertiary sector or the services sector is the main contributor to the GVA with a 49.7 percent contribution (Sedibeng District Municipality, 2012a:1-20).

4.3 STATUS QUO REGARDING RISK MANAGEMENT AT SEDIBENG DISTRICT MUNICIPALITY

There are various risk management documents, tools and policies currently in place within Sedibeng District Municipality (DM). The following documentation and tools will be discussed: Sedibeng DM Enterprise Risk Management Framework, Insurance Risk Assessment and Risk Assessment Handbook.

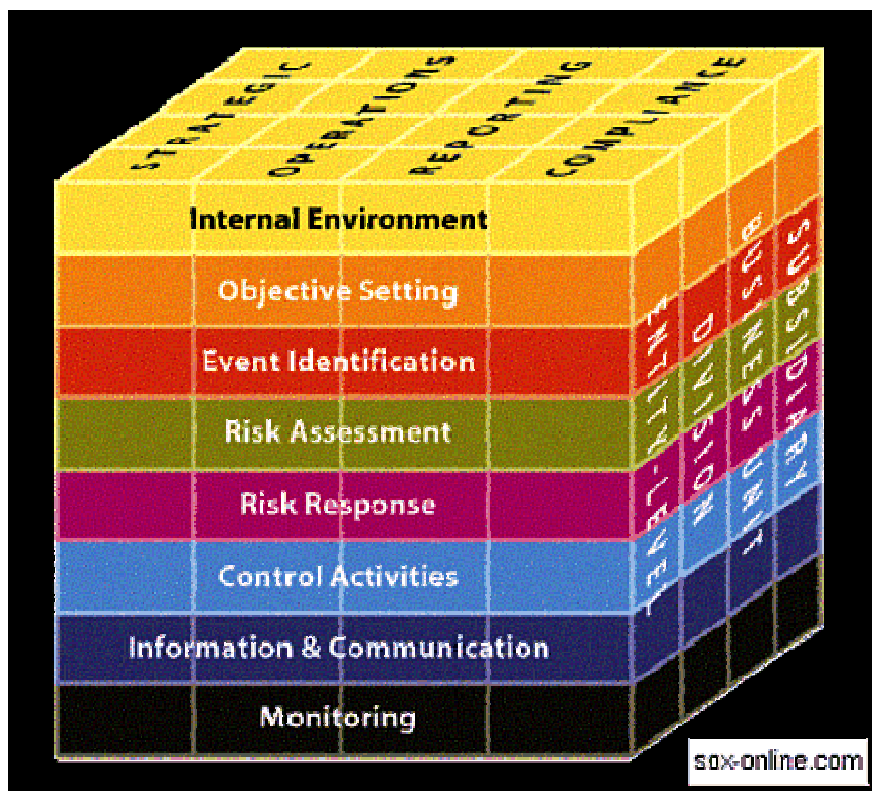
4.3.1 Sedibeng District Municipality Enterprise Risk Management Framework

The Sedibeng DM Enterprise Risk Management Framework (ERMF) was developed in light of the fact that municipalities also encounter risks and do not have the comfort of functioning in a risk-free environment. Municipalities are also faced with uncertainty, just like all other organisations. The main challenge for senior management is to make certain that risks are identified and properly addressed in order to ensure that the goals and objectives that must be achieved by the municipality for its stakeholders, are met. Taking the above into consideration, risk management can be seen as a management tool to increase financial success within the municipality (Sedibeng District Municipality, 2011:5).

4.3.1.1 The purpose of the Enterprise Risk Management Framework (ERMF)

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Enterprise Risk Management (ERM) can be defined as a process, affected by an institution's board of directors, senior management and other employees, where strategy is applied across the whole of the institution and not just one sector or department. ERM is designed to identify potential events that may affect the outcome of goals and objectives set within the institution by means of managing risk to be within its risk appetite. As explained in Chapters 2 and 3, risk management involves certain steps and processes. These steps are once again highlighted by the COSO framework cube (Figure 4.1) and include the following steps: Establishing internal environment; setting of objectives; identifying events; assessing risks; risk response; controlling of risk activities; information and communication; and lastly monitoring and reporting.

Figure 4.1: COSO framework cube



Source: COSO (2004:5).

The ERMF was proposed in light of many external laws and legislation, as well as guidelines set out by COSO.

The ERMF was designed to assist Sedibeng DM in the following fields:

- Provide a systematic and comprehensive approach to implement proper risk management throughout the entire municipality;
- Provide guidance for role players involved in risk management decisions. Role players includes accounting officers, managers and staff;
- To provide management with risk management tools to assist decision-making responsibilities;
- Assist in incorporating risk management processes in day-to-day activities within the municipality, and to integrate this with risk management;
- Establish a risk-smart workforce and environment that will support innovation and responsible risk-taking by officials and management;
- Ensure that proper commitment is shown by officials and management towards the ERMF and ERM process;
- Assist in effective compliance with laws and regulation;
- Assist in increasing the likelihood of Sedibeng DM to achieve their set out objectives and goals.

The Sedibeng DM has incorporated a strategy to attempt to include all of the processes as set out by the National Treasury Public Sector Risk Management Framework, COSO Framework and other legislation. It has identified possible sources of risk as follows (Sedibeng District Municipality, 2011):

- Legislative changes;
- Public liability;
- Security;

- New projects and activities;
- Socio-political changes;
- Human behaviour;
- Discontinuing, expansion or outsourcing of functions and services;
- Technological advancements;
- National and international events;
- Management and activities control.

All of these sources of risk should be continuously monitored and maintained.

Sedibeng DM has identified two risk types namely, internal and external, as well as various categories of risk, within the municipality. The internal categories are listed as strategic risk, operational risk, legal risk, financial risk, human resource risk, infrastructure risk, knowledge management and IT risk, occupational health and safety risk, compliance risk, fraud and corruption risk, reputation risk, third party performance risk, and disaster recovery and business continuity risk. Identified external risks are political risk, economical risk, social environment risk, technology risk, natural environment risk, legislative environment risk, and *force majeure* risks (Sedibeng District Municipality, 2011:20-24).

4.3.1.2 Risk assessment process

The Sedibeng ERMF identifies three steps in the risk assessment process, which involves considering issues such as:

- Identification, analysis and evaluation of risk;
- Assessment of current controls to determine effectiveness;
- Determination of residual risk;
- Designing of strategies to mitigate risks.

The steps are listed below:

Step 1 - Assessing the likelihood of the risk occurring. This is done by using a rating table such as in the Table 4.1.

Table 4.1: Step 1: Scoring system for likelihood and impact assessment

Rating	Assessment	Definition
5	Almost certain	This type of risk is almost certain to occur within the next 10 to 12 months, or in some cases has already occurred. The chance of occurrence is 95 to 100 percent (or 1 in 10).
4	Likely	This risk has a probability of occurring easily within the next 12 to 18 months. The chance of occurrence is 75 to 94 percent (or 1 in 11-100).
3	Possible	This risk will have an above-average chance to occur. The chance of occurrence is predicted to be in the next 18 to 24 months. The chance of occurrence is 50 to 74 percent (or 1 in 101-1000).
2	Unlikely	This can be classified as an infrequent risk and might occur within two to four years. The chance of occurrence is six to 49 percent (or 1 in 1001-100 000).
1	Rare	This is considered a very rare or infrequent risk, which might occur within the next five to 10 years. The chance of occurrence is (0-5%) or (1 in 10 001 - 100 000).

Source: Sedibeng District Municipality, (2011:27).

Step 2 – This involves looking at the impact of a risk or compiling a risk index. This is done by means of a risk matrix.

Table 4.2: Step 2: Example of a risk matrix

IMPACT	1	5	10	15	20	25
	2	4	8	12	16	20
	3	3	6	9	12	15
	4	2	4	6	8	10
	5	1	2	3	4	5
			1	2	3	4
LIKELIHOOD						

Source: Sedibeng District Municipality, (2011:30).

Step 3 - Determines the acceptability of risk by looking at the inherent risk exposure.

Table 4.3: Acceptability of risk table

Magnitude of risk	Acceptability of risk	Response to risk
Catastrophic risk	Unacceptable	Vigorous intervention required in order to reduce risk to an acceptable level.
Major risk	Unacceptable	Moderate intervention required in order to reduce risk to an acceptable level.
Moderate risk	Acceptable but with caution	Controls to be checked and improvements implemented.
Minor risk	Acceptable	Controls to be checked and optimised.
Insignificant risk	Acceptable	Monitoring and observation.

Source: Sedibeng District Municipality, (2011:31).

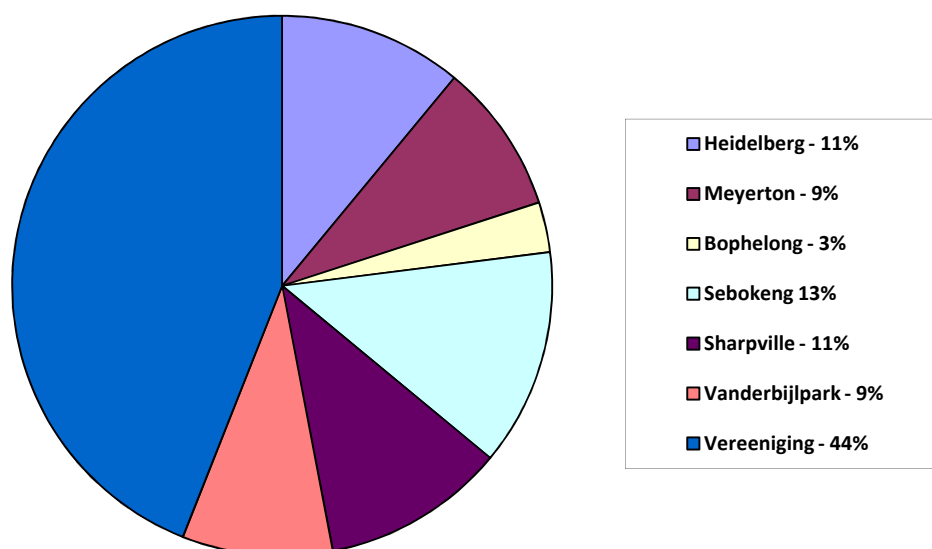
4.3.2 Insurance risk assessment

Sedibeng DM appointed Lateral Unison Insurance Brokers to assess their overall risk status regarding assets, including all the municipal-owned buildings in the three local municipal areas. The ERM included looking at the background, ideal situation, current situation within the municipalities and lastly solutions to reduce the possibility of the risks occurring.

4.3.2.1 Current situation

The percentage of risk per municipal area was determined as follows:

Figure 4.2: Overview of riskiness per municipal area



Source: Lateral Unison Insurance Brokers, (2012:3).

These percentages include possible risks that might realise within all of the municipal buildings. These buildings include the museums, testing stations, licensing departments, youth centres, taxi ranks, community halls, police stations and municipal offices. The risk assessment included assessing the following fields, focus area, finding, priority, criteria, cause and effect. An example of an analysis sheet is depicted in Table 4.4.

Table 4.4: Risk analysis sheet

Focus Area	Finding Title	Priority	Finding Details	Criteria	Cause	Effect
Licensing Department	Exposed wires	High	Loose wires were found	Compliance with electrical regulations OHS Act	Incorrect installation	Fire, financial loss, death etc.
Museum	Emergency contact details not available	Medium	No contact details in case of emergency	Compliance with emergency OHS Act regulation	Lack of knowledge of OHS Act.	Injury, public liability, death, lawsuits etc.
Testing Station	Vegetation overgrown in parking area	Low	Vegetation damaging tar surfaces was found	Maintenance must be increased	Lack of management	Financial loss, damage of tar surfaces, pest infestation

Source: Lateral Unison Insurance Brokers, (2012:8-14).

All the possible risks within the municipality were summarised in a risk analysis sheet. Lateral Unison Insurance Brokers concluded their study by providing possible solutions.

4.3.2.2 Possible solutions to risks

Lateral Unison Insurance Brokers compiled risk-solution plans and included in these plans was that risk workshops be held with each department. A second solution was to undertake on-site physical inspections. This was done in order to compile these risk registers. A third solution was compiling of a risk control plan.

The questionnaire used for the purpose of this study included question relating to the above mentioned risk-solutions plans, and one of the questions asked of respondents was: Does your department hold risk workshops and interviews to identify, filter and screen risks? The following responses were received: In Group 1 (officials not in management positions), 18 percent of respondents replied yes, and 82 percent replied no. In Group 2 (senior management officials), seven percent of respondents replied yes, and 93 percent replied no. A second question was asked of respondents from Group 1 was: Would you like training in order to understand and manage risks better within your department? A total of 93 percent of respondents replied yes. Group 2 was asked: Do you provide or have access to training and support for everyone involved in risk management activities? A total of 64 percent of respondents replied no. There is clearly a lack of workshop training regarding risk management within Sedibeng DM. Respondents were further asked the following question: Does your department have a strategy to reduce or eliminate the threats and events that create risks? Group 1 respondents replied as follow, 29 percent replied yes and 71 percent replied unsure. Group 2 replied as follow: 73 percent replied yes, seven percent replied unsure and 18 percent replied no.

It is clear from the above results that some of the solutions as set by Lateral Unison Insurance Brokers have not yet been met. Recommendations to improve this will be provided in Chapter 5.

4.3.2.3 Risk assessment information handbook

This handbook was created as a tool in order to assist management to successfully identify existing or emerging risks. The risk assessment process includes looking at factors within the municipality such as people, processes, systems, and external parties. The four main components of the risk management process are highlighted as follows (Sedibeng District Municipality, 2012b:4):

- Risk identification – initial stage of the assessment process;

- Risk analysis – this includes prioritising risk into categories of magnitude, likelihood and impact;
- Control evaluation – design and performance of risks are evaluated in terms of the categories identified.

4.3.3 Auditor General's reports

Sedibeng DM received an unqualified audit opinion from the Auditor General for the 7th successive year (Manuli, 2012:1-2). The reports were unqualified but had certain findings that needed to be improved. These findings will be discussed for financial years 2010, 2011 and 2012.

The reports for three financial years, as published by the Auditor General regarding the financial standing of Sedibeng District Municipality, were reviewed. The following findings are highlighted per financial year.

4.3.3.1 Financial year 2010 (1 July 2009 to 30 June 2010)

The Auditor General highlighted the following findings (AGSA, 2010:1-5)

- The statements were presented fairly;
- Fruitless and wasteful expenditure occurred to the amount of R322 000.00. This was due to a vehicle allowance being granted to an officials whilst also having use of a rented vehicle;
- Unauthorised expenditure took place in the form of over-expenditure on grants and costs to employees. This amount was R24 498 066.00.
- Performance information was not presented in a accessible and simple format;
- Reporting in the annual report was not done against pre-established targets, objectives and indicators as approved in the Integrated Development Plan (IDP) and Service Delivery Business Implementation Plan (SDBIP);

- No comparison was provided for performance in present financial year against targets set for year, and performance in present year against previous years.

AGSA (2010:1-5) further stated under the section regarding governance, the statement was made, "improvements are required in respect of performance information controls to ensure that performance information is consistent, accurate, valid, and complete."

4.3.3.2 Financial year 2011 (1 July 2010 to 30 June 2011)

The Auditor General highlighted the following findings (AGSA, 2011:1-5):

- The statements were presented fairly;
- Fruitless and wasteful expenditure occurred to the amount of R140 000.00. This was due to an event that was arranged but delegates did not attend;
- Unauthorised expenditure took place in the form of over-expenditure on grants and costs to employees. This amounted to R88 631 829.00;
- A net loss was incurred to the amount of R118 084 260.00 during the specific financial year. The current assets were exceeded by the current losses to the amount of R62 276 267.00;
- Information was not presented in a simple and accessible format;
- Some targets and key performance indicators were not defined properly and this results in difficulty to measure performance;
- The reporting was not consistent as some indicators appeared in the IDP but not in the SDBIP;
- Some deficient performance information was found regarding validity, accuracy, and completeness;
- There were some issues regarding compliance with laws and regulation;

- There was insufficient regular reviews and monitoring of compliance with regulation;
- Lack of proper daily implementation of controls such as reconciling of transactions;
- Lack of appropriate risk management such as continuous risk assessment and monitoring.

4.3.3.3 Financial year 2012 (1 July 2011 to 30 June 2012)

The Auditor General highlighted the following findings (AGSA, 2012:1-5):

- The statements were presented fairly;
- Material under spending of R7 750 950.00 was reported. As a result, not all of the objectives regarding capital projects were achieved;
- Reported indicators and targets were not seen as consistent with future indicators and targets;
- 23 percent of the planned targets were not achieved during this financial year;
- Targets and indicators were not properly planned and developed during the strategic planning process;
- Financial statements were not prepared in accordance with the requirements of Section 122 of the MFMA;
- Sufficient monitoring controls were not implemented by management;
- Compliance with accounting framework regarding preparation of disclosure notes was not done properly by management.

It is clear from the three audit reports that certain issues still needs to be resolved and managed in order to achieve a 'clean audit'.

4.4 QUESTIONNAIRE ANALYSIS

This section will explain in detail how the research questions and the questionnaire design were compiled.

4.4.1 Research questions and questionnaire design

A survey cannot achieve success without a good and structured questionnaire. There are various ways of compiling a questionnaire, and two of the most widely-used methods are exploratory and quantitative information collection. Exploratory questions will aim at gathering qualitative information, and quantitative questions will aim at testing exact hypotheses (FAO, 2013:1-5). The questionnaires designed for the purpose of this study are mostly aimed at addressing quantitative questions and data. Another factor to consider when doing quantitative research is that a set hypothesis must be tested with the use of the questionnaire (Struwig & Stead, 2010:4). Quantitative research can be defined as a form of conclusive research involving reasonably structured data collection methods. The questionnaire was designed with formal standardised questions, and these questions were characterised by the following:

- Arranged wording and order of questions. This was done to ensure that responses from respondents were based on the same stimuli;
- Prescribed format of response. In this case the responses were either yes, no or unsure/maybe. This was done to enable rapid completion during the interview process (FAO, 2013:4).

The questionnaire was designed by incorporating the guidelines of risk management as set out by the National Treasury Public Sector Risk Management Framework (South Africa, 2010), as well as information gathered from the best practice models investigated in Chapter 3.

Four questionnaires were designed, but all of them tested the same hypothesis and question types. The reason why four questionnaires were designed was merely because of the levels and structures of the groups of

respondents that were interviewed. This will be explained in the sections to follow. The aim of the questionnaire was to determine the knowledge, attitude and contribution of the various respondent groups to risk management. The questionnaire had six sections with closed ended questions, and two sections with open ended questions. The closed ended sections address issues such as general risk analysis, risk identification, risk assessment, risk response, risk communication, and reporting and risk monitoring. The aim of these six sections was to determine whether or not the respondent understood the risk environment, risk assessment and response procedures within the Sedibeng DM. Five open ended questions were posed to give the respondents a chance to specifically include either a specific person's name or timeframe, and to identify specific risks that they have encountered in their day-to-day activities.

4.4.1.1 Closed ended questions

These types of questions can also be referred to as multiple choice questions. Categories of response are pre-selected and the respondent only has to choose one of the already provided answers (Eiselen & Uys, 2005:6).

Six sections of closed ended questions were compiled within the various questionnaires. The options provided to the respondent were yes, unsure and no. General statements and questions regarding risk management were asked, and the respondents had to answer yes if they were aware of the issue under discussion or if they agreed with the statement. No should have been the answer if they did not agree with the statement or question and an unsure answer was provided in the event where the respondent was either unfamiliar with the question asked or not sure about the answer. Examples of some closed ended questions that were asked include:

- Do you know if Sedibeng DM has a Risk Management Strategy?
- Does your department have a comprehensive inventory of risks that might prevent, degrade, and delay or enhance the achievements of objectives?

- Does your department hold risk workshops and interviews to identify, filter and screen risks?

4.4.1.2 Open ended questions

By using open ended questions the respondents do not have the choice of a predetermined answer; instead they have to write in the answer in their own words. This type of questioning is more time consuming and also takes longer for the researcher to analyse. There are, however, also some advantages to these types of questions, such as the fact that the respondents answer cannot be influenced by providing specific answers. Some of the open ended questions that were asked in the questionnaire include:

- Is the risk management process delegated to someone in your department? If yes, to who is it delegated?
- Does your department have a comprehensive inventory of risks that might prevent, degrade and delay or enhance the achievements of objectives? If yes, please supply details.
- Does your department perform regular risk monitoring and if yes, how often?
- Please mention a few issues or areas that you think create unnecessary risk in your department and that you would like to be reduced or resolved.

4.4.2 Method of survey and questionnaire information

The method of survey included one-on-one interviews, group discussions and email versions of the questionnaire. Some of the respondents were not available for a one-on-one interview, so the decision was made to allow them to complete the questionnaire in their own time and return it at a later stage.

Questionnaire information was compiled by using the Public Sector Risk Management Framework (2010) as guidance. Most questions were altered to test the respondent's knowledge and skills, as per requirements set out in the

Public Risk Management Framework (2010) relating to sound financial and risk management within the public sector.

4.4.3 Target audience

The target audience that was chosen is all employed by Sedibeng District Municipality and four groups were created.

4.4.3.1 Group 1 – Non-management officials

Group 1 consisted of officials who are not in management positions. The reason why these respondents were chosen was to determine to what level non-management staff was updated and aware of risk management procedures, tools and policies within the various departments. The questionnaire and respondent summary follows:

Table 4.5: Summary of Group 1 respondents

1. Method of questionnaire distribution.	Questionnaires were given to the respondents by hand to complete in their own time and return to researcher.
2. Number of respondents who were given questionnaires to complete.	20
3. Number of questionnaires received back.	14
4. Departments respondents are working in.	Finance; Community Services; Legal and Support Services; Sports, Recreation, Arts and Culture; Municipal Manager's Office.
5. Usable questionnaires received back.	14

Source: Own compilation

4.4.3.2 Group 2 – Senior management officials

Group 2 consisted of officials occupying management positions, such as heads of department (HODs), directors, chief financial officer (CFO), and other managers. The reason why these respondents were chosen was to determine to what level management staff was updated and aware of risk management procedures, tools and policies within their various departments. The questionnaire and respondent summary are as follows:

Table 4.6: Summary of Group 2 respondents

1. Method of questionnaire distribution.	One-on-one interviews were scheduled with each of the respondents and they were personally interviewed.
2. Number of respondents who were invited to attend the questionnaires interview.	12
3. Number of respondents interviewed.	11
4. Department respondents are working in.	Finance; Community Safety; Legal and Support Services; Strategic Planning and Economic Development; Transport and Infrastructure; Corporate Services.
5. Usable questionnaires received back.	11

Source: Own compilation

4.4.3.3 Group 3 – Political officials

Group 3 consisted of officials who are in political positions, such as members of the mayoral committee (MMCs) and other councillors. The reason why

these respondents were chosen was to determine to what level the political structure within the Sedibeng DM were updated and aware of risk management procedures, tools and policies. The questionnaire and respondent summary are as follows:

Table 4.7: Summary of Group 3 respondents

1. Method of questionnaire distribution.	Questionnaires were emailed to the respondents to complete in their own time and return to researcher.
2. Number of respondents who were emailed a questionnaire.	8
3. Number of respondents who completed the questionnaire.	1
4. Respondent's department of responsibility.	Finance
5. Usable questionnaires received back.	1

Source: Own compilation

4.4.3.4 Group 4 – Municipal manager (MM) and executive mayor (EM)

Group 4 consisted of the municipal manager and the executive mayor. Strictly speaking, they also form part of the political officials in Group 3 but the questions were structured differently for them to be able to provide more information. The reason why these respondents were chosen was to determine to what level the two highest management positions in the council was updated and aware of risk management procedures, tools and policies within their various departments. The questionnaire and respondent summary are as follows:

Table 4.8: Summary of Group 4 respondents

1. Method of questionnaire distribution.	Due to their extremely busy schedules, one-on-one interviews could not be scheduled with each of the respondents and it was decided to leave the questionnaires with them to complete in their own time.
2. Number of respondents who received a questionnaire.	2
3. Number of respondents completing a questionnaire.	0
4. Departments respondents are working in.	N/A
5. Usable questionnaires received back.	0

Source: Own compilation

4.4.4 Questionnaires for survey

A basic questionnaire was designed using guidelines from the National Treasury Public Sector Risk Management Framework (South Africa, 2010), as well as other legislation. Due the variety of different positions held by the respondents, four questionnaires were designed. All four questionnaires had a similar outcome regarding the question design, but were restructured to relate to various respondent groups and their specific position within the municipality. Questions were also slightly altered, as some questions would not have been relevant to ask a director, but would be relevant to a non-manager official. All questionnaires had a basic information section, as seen in Table 4.9. The four questionnaires are explained below.

Table 4.9: Basic information section

RESEARCH: An Appraisal of Implementing Risk Management as a Strategy to Promote Sound Financial Management at Sedibeng District Municipality		
REASON FOR RESEARCH STUDY:	Partial fulfilment of Masters degree in Development and Management	
REASON FOR INTERVIEW:	To determine views on the extent of risk management hazards at the municipality	
RESPONDENT:	NAME:	SURNAME:
DEPARTMENT:		
POSITION HELD:		
DATE:		
TIME:	START:	END:
NAME OF INTERVIEWER:	NATANYA MEYER	

Source: Own compilation

4.4.4.1 Questionnaire 1

Questionnaire 1 was designed for all officials not in management or political positions. The questions were structured to determine the extent and knowledge that the respondent has regarding risk management within their specific job position and department. The aim of the questions was also to establish the level of training and support provided by management to the Group 1 respondents. 14 general risks analysis questions were asked, as well as questions determining the level of risk identification, assessment, response, communication, reporting and monitoring. Refer to appendix A for questionnaire.

4.4.4.2 Questionnaire 2

Questionnaire 2 was designed for all senior management officials (HODs, CFOs and managers). The questions were structured to determine the extent and knowledge that the respondent has regarding risk management within their specific department, as well as determining the level of risk management support provided to the department staff by the manager or director of the department. The aim of the questions was also to establish the level of training and support provided by management to their employees, and to ascertain if management received assistance regarding risk management from the risk officer and risk committee responsible for risk management within the Sedibeng DM. 14 general risk analysis questions were asked, as well as questions determining the level of risk identification, assessment, response, communication, reporting and monitoring. Refer to appendix B for questionnaire.

4.4.4.3 Questionnaire 3

Questionnaire 3 was designed for all political officials (Councillors and MMCs). The questions were structured to determine the extent and knowledge that the respondents have regarding risk management within their specific portfolio department. The aim of the questions was also to establish the level of training and support provided by management to employees, and to determine if management received assistance regarding risk management from the risk officer and risk committee responsible for risk management within the Sedibeng DM. 12 general risks analysis questions were asked, as well as questions determining the level of risk identification, assessment, response, communication, reporting and monitoring. Refer to appendix C for questionnaire.

4.4.4.4 Questionnaire 4

Questionnaire 4 was designed for the municipal manager (MM) and executive mayor (EM). It is similar to questionnaire 2, the wording was just changed to refer to the whole municipality and not just a specific department due to the fact the MM and the EM are not responsible for one specific department. The

questions were structured to determine the extent and knowledge that the respondents have regarding risk management within the whole of Sedibeng DM. 14 general risk analysis questions were asked as well as questions determining the level of risk identification, assessment, response, communication, reporting and monitoring. Refer to appendix D for questionnaire.

4.4.5 Questionnaire distribution

The questionnaires were distributed in various ways. The gatekeeper of Sedibeng DM provided a liaison person who arranged interviews with the various respondents in Group 2, and one-on-one interviews were held with them between 18 and 21 February 2013. The interviews were approximately one hour each and a total of 11 interviews were conducted. Group 1 respondents were each hand-delivered a questionnaire, which had to be returned to the liaison person. Group 3 and 4 respondent were sent a questionnaire via email and were requested to either return it by hand to the liaison person, or email it back to her. In total 42 questionnaires were distributed and 26 were received back. Table 4.10 contains a summary of the questionnaire distribution.

Table 4.10: Summary of questionnaire distribution

GROUP	Group 1	Group 2	Group 3	Group 4
Questionnaires distributed	20	12	8	2
Questionnaires received back	14	11	1	0
Usable questionnaires	14	11	1	0

Source: Own compilation

4.4.6 Design of information sessions and interviews with participants

Due to the importance of senior management within any organisation, and specifically within Sedibeng DM, it was decided that one-on-one interviews will be held with all the management officials. These sessions were approximately one hour each and an in-depth discussion was held with each of the respondents. The list of interviewees is compiled in Table 4.11.

Table 4.11: List of Interviewees

Position Held	Name of Interviewee	Date and Time of Interview
Venue: SCM Board Room 3rd Floor		
Director: Finance Management and Budgets	Mr Charles Steyn	09h00 on 18/02/2013
Director: Supply Chain Management	Mr Thabang Tsie	10h00 on 18/02/2013
Director: Special Projects	Mr Gerrie Deysel	11h00 on 18/02/2013
Acting Director: Environment	Mr Zies van Zyl	12h00 on 18/02/2013
Director: Transport and Infrastructure	Mr Mershack Manqu	14h00 on 18/02/2013
Venue: MM's Board Room Ground Floor		
Director: Aids Directorate	Mr Motswaeledi Makhutle	10h00 on 20/02/2013
Director: Community Safety	Mr Maleho Leacwe	11h00 on 20/02/2013
Venue: MM's Board Room Ground Floor		
Manager: Legal and Support	Mr Nelson Tshabalala	09h00 on 21/02/2013
Assistant Manager: Finance	Mr Andre Lubbe	10h00 on 21/02/2013
Director: Development and Planning Housing	Mr Rudolph Netshivhale	11h00 on 21/02/2013
Chief Financial Officer	Mr Brendan Scholtz	12h00 on 21/02/2013

Source: Own compilation

4.5 PERMISSION TO CONDUCT RESEARCH

Permission was firstly obtained from the municipal manager of Sedibeng District Municipality, who acted as the gatekeeper for the research study. A sample of the permission letter to the gatekeeper is presented as appendix E. Second, all respondents completed a consent form where they were informed that participation is voluntary and that information will be treated with confidentiality. See appendix F.

4.6 ANALYSIS OF RESEARCH DATA

This section will analyse all the questions asked of respondents within the various questionnaires. Due to lack of response regarding questionnaire completion from Group 3 (Councillors and political officials) and Group 4 (municipal manager and executive mayor), only Group 1 (officials not in management positions), and Group 2 (senior managers) will be analysed in detail. The respondents were asked various questions compiled within six main categories. These categories included general risk analysis, risk identification, risk assessment, risk response, risk communication and response, risk monitoring and integration of risk management activities.

4.6.1 Group 1 – Officials not in management positions

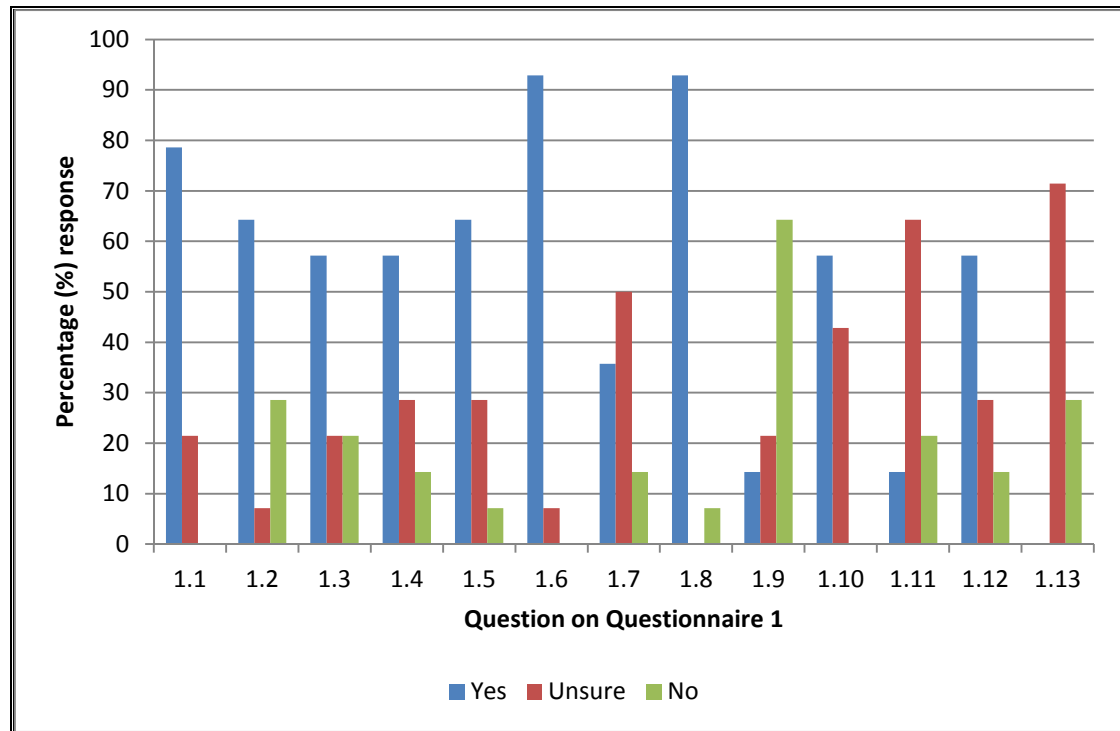
Group 1 included officials that were not in management positions. 20 questionnaires were distributed and 14 were received back. The officials who completed questionnaires were from the finance department, community services department, legal and support services department, sports, recreation, arts and culture department, and the municipal manager's office. The analysis of Group 1 follows.

4.6.1.1 Group 1 - General risk analysis

Section 1 aimed at determining the extent of knowledge the respondents from Group 1 had regarding general risks issues within Sedibeng DM. Figure 4.3 summarises these responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent's outcomes. See appendix G for analysis results.

Figure 4.3: Group 1 – General risk analysis



Source: Own compilation

Question 1.1: Do you know if Sedibeng District Municipality (SDM) has a Risk Management Strategy (RMS)?

79 percent of respondent replied yes and 21 percent replied unsure. Respondents who answered unsure are not aware that a RMS exists within Sedibeng DM and should be informed accordingly.

Question 1.2: Have you seen the Risk Management Strategy of Sedibeng DM?

64 percent of respondents replied yes, seven percent replied unsure, and 29 percent replied no. A copy of the risk management strategy should be sent to all officials via email for example.

Question 1.3: Do you have a Chief Risk Officer/Manager and staff with necessary skills and competencies to manage risk within SDM?

57 percent of respondents replied yes, 22 percent replied unsure, and 21 percent replied no. Currently, Sedibeng DM does not have a risk officer as the position is vacant. 57 percent of respondents are under the impression that there is a risk manager and 22 percent are not sure. This can be seen as a problem as employees should be informed of the status of management positions.

Question 1.4: Do you understand the concept/meaning of risk management and how it can influence your department?

57 percent of respondents replied yes, 29 percent replied unsure, and 14 percent replied no. This is a major problem as almost half of respondents are unaware of what risk management means and how it can affect their department. It is not always possible to report a risk if the officials do not understand what a risk is.

Question 1.5: Is the Risk Management process delegated to someone in your department?

The respondents reply was, 64 percent yes, 19 percent unsure, and seven percent no. If an official is not aware of whom the responsible person regarding risk management is, they would not know who to report to.

Question 1.6: Do you think risk assessments could be useful for your department?

93 percent replied yes and seven percent replied unsure. Respondents are clearly positive towards risk management.

Question 1.7: Do you have the capacity to perform a risk assessment in your department?

36 percent of respondents replied yes, 50 percent replied unsure, and 14 percent replied no. Respondents are mostly uncertain whether or not risk assessments are being implemented within their departments.

Question 1.8: Would you like training in order to understand and manage risks better within your department?"

93 percent replied yes and only seven percent replied no. There is a clear indication that officials want to be trained in managing risk better.

Question 1.9: Does the RM/delegated authority of SDM often have meetings with your department to update you on risks assessment issues?

14 percent of respondents replied yes, 21 percent replied unsure and 65 percent replied no. It could be reported that not enough meetings regarding risk assessment issues are held with officials not in management positions.

Question 1.10: Are you encouraged by senior management to report events in order to identify risks within you department?

57 percent replied yes and 43 percent replied unsure. Senior management could be encouraged to involve other staff members more in the risk management processes.

Question 1.11: Does your department have organizational structure that ensures effective co-ordination of RM activities?

14 percent replied yes, 65 percent replied unsure and 21 percent replied no. A conclusion can be made that respondents either did not understand the question, or they are unaware of any structure, or that such structure does not exist.

Question 1.12: Does your department have adequate human resources capacity, with the right skills to implement the RM strategy?

57 percent of respondents replied yes, 29 percent replied unsure, and 14 percent replied no. Approximately half of the respondents are unaware of human resource capacity, or believe that there is none. This could be improved by means of training.

Question 1.13: Does your department have unit/s, working groups or committees to co-ordinate exposure to risk?

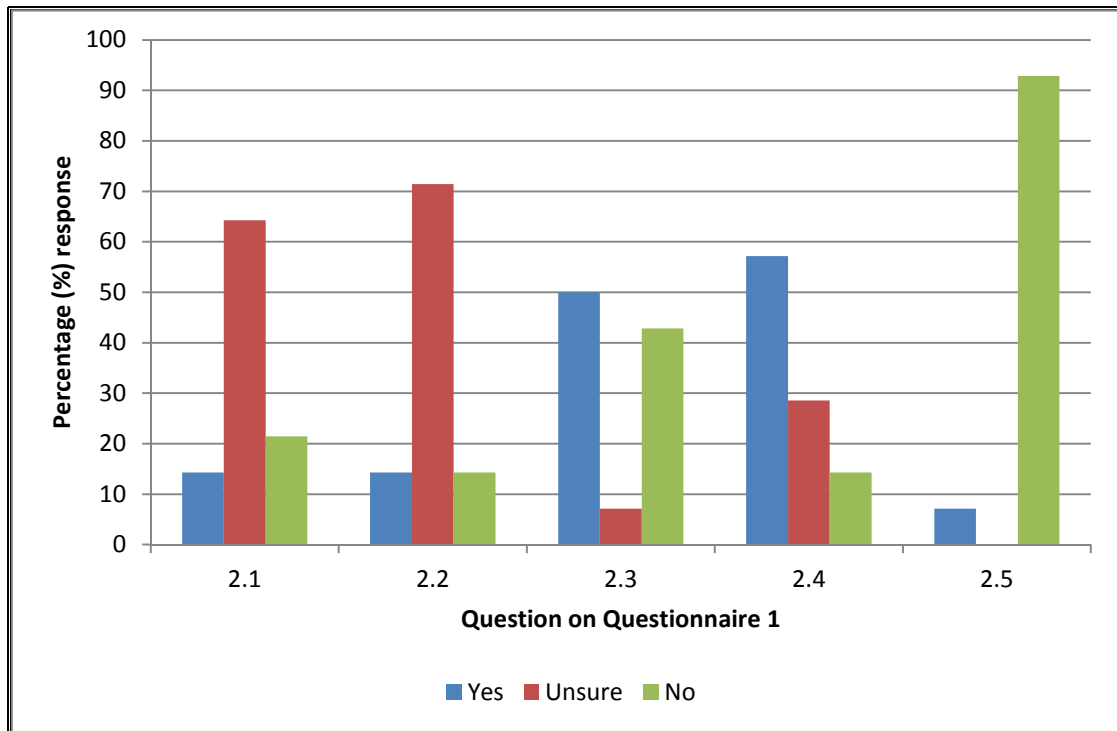
None of the respondents replied yes, 71 percent replied unsure, and 29 percent replied no. This should be improved by creating working groups or committees, within the department, to co-ordinate exposure to risk.

4.6.1.2 Group 1 - Risk identification

Section 2 aimed at determining the method and level of risk identification exercised by respondents from Group 1 within Sedibeng DM. Responses are summarised in Figure 4.4.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent's outcomes.

Figure 4.4: Group 1 – Risk identification



Source: Own compilation

Question 2.1: Does your department have a (comprehensive) inventory of risks that might prevent, degrade, delay or enhance the achievement of objectives?

65 percent of respondents were unsure, 14 percent replied yes, and 21 percent replied no. Senior management within all departments has a risk register that should be updated frequently. Officials not in management positions should also be aware of this register.

Question 2.2: Is the risk identification an on-going process to identify new and emerging risks timorously within your department?

14 percent replied yes, 72 percent replied unsure and 14 percent replied no. Risk identification should be an on-going process in order to identify new and emerging risk, and all officials should be aware of this.

Question 2.3: Do you identify all risks within your department, regardless of whether or not such risks are within the direct control of the your department?

50 percent replied yes, seven percent unsure and 43 percent no. It should be the responsibility of the management officials to inform staff which risks (internally or externally generated) they should report.

Question 2.4: Is risk identification the priority of all officials in your department or are there only a few officials responsible for this?

57 percent of respondents replied yes, 29 percent replied unsure, and 14 percent replied no. Risk identification should be the responsibility of all officials.

Question 2.5: Does your department hold risk workshops and interviews to identify, filter and screen risks?

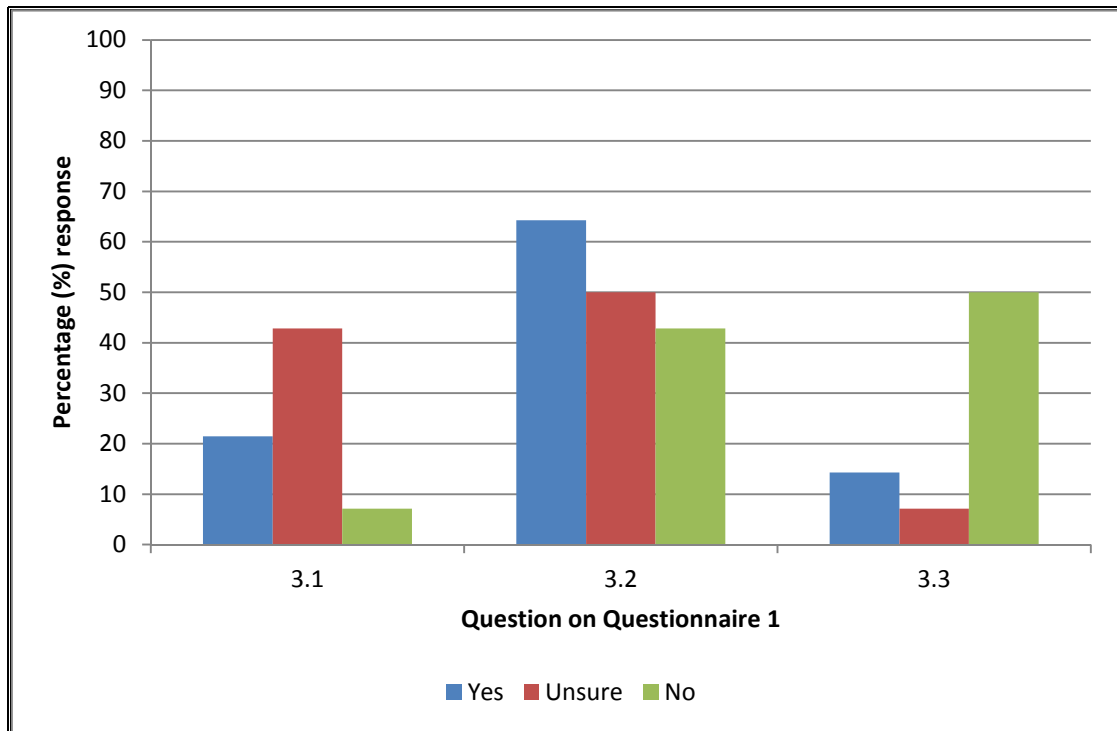
93 percent of respondents replied no, and only seven percent replied yes. There is clearly a lack of training and workshops regarding risk management within this sample group.

4.6.1.3 Group 1 - Risk assessment

Section 3 is aimed at determining the method and level of risk assessment exercised by respondents from Group 1 within Sedibeng DM. Figure 4.5 summarises these responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent's outcomes.

Figure 4.5: Group 1 – Risk assessment



Source: Own compilation

Question 3.1: Does your department undertake risk assessment to determine the level of risk associated with specific threat or event?

Respondents replied as follows, 21 percent as yes, 65 percent as unsure, and 14 percent as no. It is clear that most of the respondents are uncertain if risk assessments are done.

Question 3.2: Does your department prioritize the most important risks?

50 percent of respondents were unsure, 43 percent replied yes, and seven percent replied no. Risks should be prioritised according to the likelihood and impact.

Question 3.3: Do you re-assess risks in your department at least once a year, to ascertain if the risks were reduced or increased?

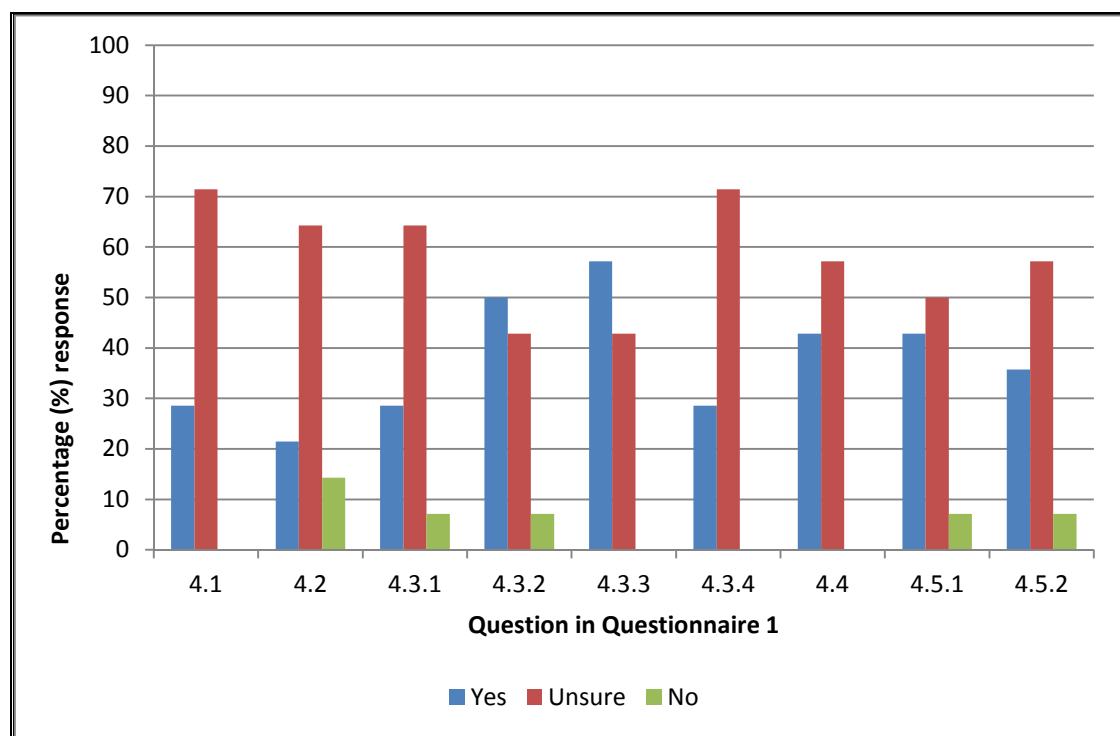
93 percent of respondents were either unsure or replied no, and only seven percent replied yes. Risks should be re-assessed frequently.

4.6.1.4 Group 1 - Risk response

Section 4 is aimed at determining the method and level of risk response exercised by respondents from Group 1 within Sedibeng DM. Figure 4.6 summarises the responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent’s outcomes.

Figure 4.6: Group 1 – Risk response



Source: Own compilation

Question 4.1: Does your department have a strategy to reduce or eliminate the threats and events that create risks?

29 percent of respondents replied yes and 71 percent replied unsure. Strategies need to be communicated with officials.

Question 4.2: If yes, does the strategy make provision for the exploitation of opportunities to improve performance?

21 percent of respondents replied yes, 65 percent replied unsure, and 14 percent replied no.

Question 4.3.1: Where the management of risk is within the control of your department, do the response strategies consider avoiding the risk?

29 percent of respondents replied yes, 64 percent replied unsure, and seven percent replied no. Risk management procedures and strategies should be explained to all officials as most officials were unsure.

Question 4.3.2: Where the management of risk is within the control of your department, do the response strategies consider treating the risk?

50 percent of respondents replied yes, 43 percent replied unsure, and seven percent replied no. Risk management procedures and strategies should be explained to all officials as almost half the officials were unsure.

Question 4.3.3: Where the management of risk is within the control of your department, do the response strategies consider transferring the risk to another party?

57 percent of respondents replied yes, 43 percent replied unsure, and seven percent replied no. Risk management procedures and strategies should be explained to all officials as almost half the officials were unsure.

Question 4.3.4: Where the management of risk is within the control of your department, do the response strategies consider

accepting the risk where cost and strategy considerations rule out alternative strategies?

29 percent of respondents replied yes and 71 percent replied unsure. Risk management procedures and strategies should be explained to all officials as most of the officials were unsure.

Question 4.4: Do your department document response strategies and responsibilities and timelines and communicate to the relevant RM Unit?

43 percent of respondents replied yes and 57 percent were unsure. Respondents in this group should be trained using response strategies.

Question 4.5.1: Do you have internal control architecture to mitigate risks through preventative controls to prevent errors or irregularities from occurring?

Respondent's replies were 43 percent yes, 50 percent unsure, and seven percent no. Risk should be mitigated through preventative controls as far as possible and all officials should be aware of this.

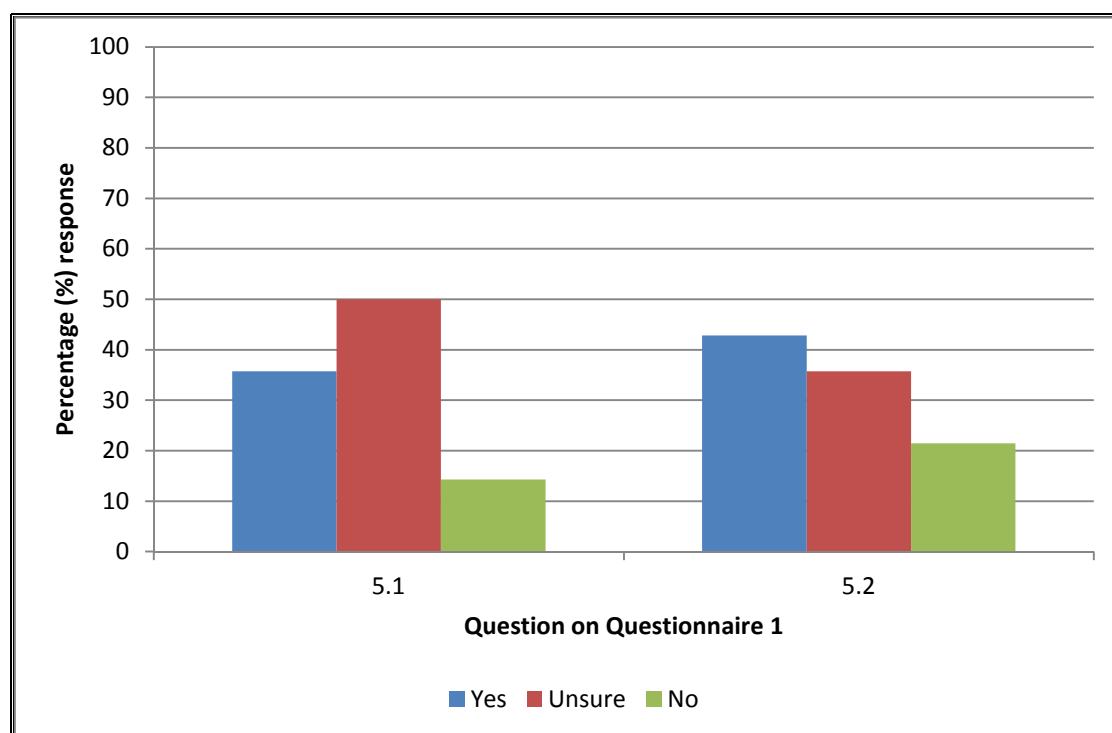
Question 4.5.2: Do you have internal control architecture to mitigate risks through detective controls to find errors after they have occurred?

36 percent of respondents replied yes, 57 percent were unsure, and seven percent replied no. Risk management procedures and strategies should be explained to all officials as more than half the officials were unsure.

4.6.1.5 Group 1 – Communication and reporting

Section 5 is aimed at determining the method and level of risk communication and reporting exercised by respondents from Group 1 within Sedibeng DM. Figure 4.7 summarises the responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent's outcomes.

Figure 4.7: Group 1 – Communication and reporting

Source: Own compilation

Question 5.1: Does your department communicate relevant information, properly and timorously to equip relevant officials regarding RM?

36 percent of respondents replied yes, 50 percent replied unsure, and 14 percent replied no. Half of the respondents were unsure if information regarding risk management is reported.

Question 5.2: Does your department communicate responsibilities and actions relevant to completing information to enhance decision making and accountability?

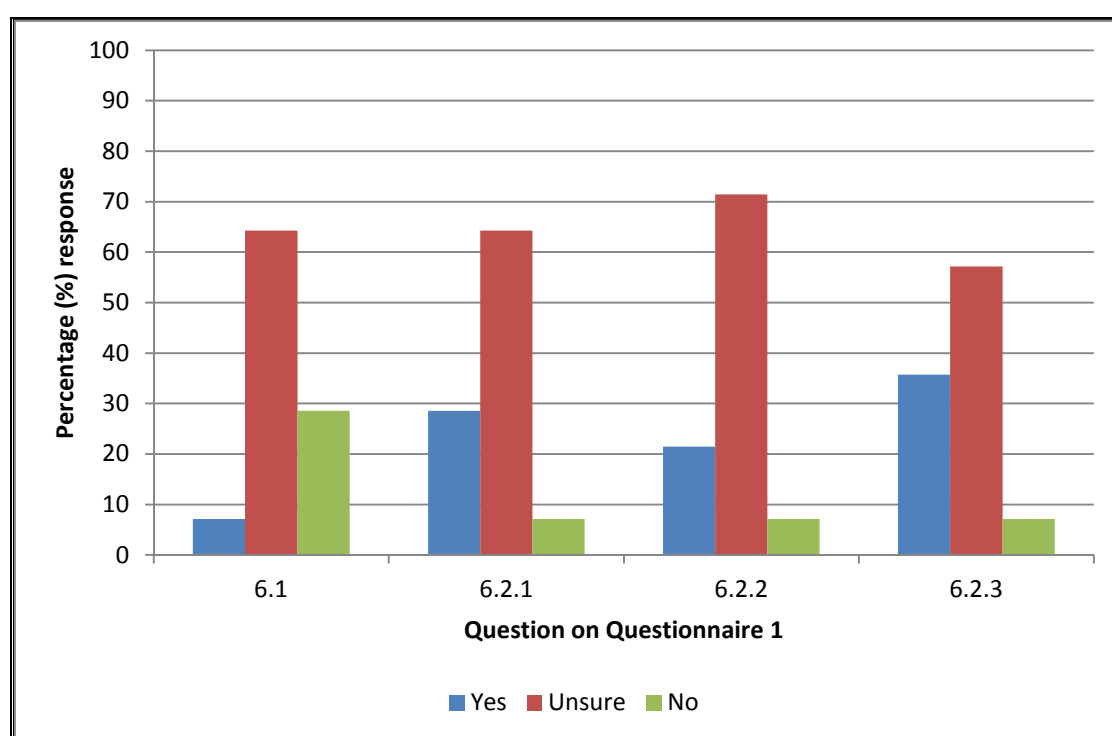
43 percent of respondents replied yes, 36 percent were unsure and 21 percent replied no. Proper decisions cannot be made by management if relevant information is not communicated.

4.6.1.6 Group 1 – Communication and reporting

Section 6 is aimed at determining the method and level of risk monitoring exercised by respondents from Group 1 within Sedibeng DM. Figure 4.8 summarises the responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent's outcomes.

Figure 4.8: Group 1 – Monitoring



Source: Own compilation

Question 6.1: Does your department perform regular risk monitoring?

Respondents replied as follows, yes seven percent, unsure 64 percent, and no 29 percent. Risk monitoring should be a continuous activity and 64 percent of respondents were unsure if it is being done in their department.

Question 6.2.1: Do your monitoring activities focus on determining if allocated responsibilities are being executed effectively?

29 percent of respondents replied yes, 64 percent were unsure, and seven percent replied no. Respondents should be trained in risk monitoring techniques.

Question 6.2.2: Do your monitoring activities focus on determining if response strategies are producing the desired result of mitigating risks?

21 percent of respondents replied yes, 71 percent were unsure, and seven percent replied no. Many of these issues are management responsibilities, but all officials should be aware of these issues.

Question 6.2.3: Do your monitoring activities focus on determining if a positive correlation exists between improvements in the system of risk management and financial performance?

36 percent of respondents answered yes, 57 percent were unsure and seven percent answered no.

4.6.2 Group 2 – Officials, management and senior management positions

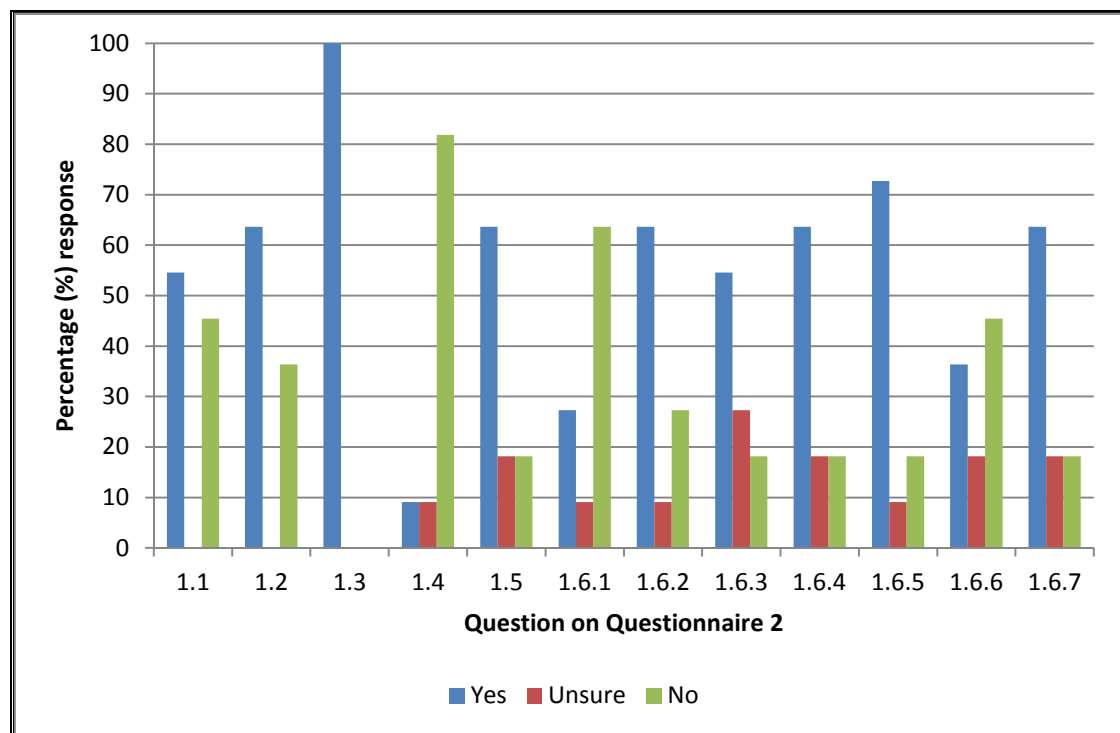
Group 2 included officials that are in management and senior management positions. Twelve one-on-one interviews were scheduled and 11 respondents completed a questionnaire. The officials who completed questionnaires were from the finance department, community services department, legal and support services department, strategic planning and economic development department, and the transport and infrastructure department. See appendix H for analysis results. The analysis of Group 2 follows:

4.6.2.1 Group 2 - General risk analysis

Section 1 aimed at determining the extent of knowledge the respondents from Group 2 had regarding general risks issues within Sedibeng DM. Figure 4.9 summarises the responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent’s outcomes.

Figure 4.9: Group 2 – General risk analysis



Source: Own compilation

Question 1.1: Do you have a Chief Risk Officer / Risk Manager and staff with necessary skills and competencies to manage risk within Sedibeng DM?

55 percent of respondents replied yes and 45 percent replied no. Currently Sedibeng DM does not have a risk officer as the position is vacant. 55 percent of respondents are under the impression that there is a risk manager. This can be seen as a problem as senior management should be informed of

the status of vacant management positions, especially one as important as the chief risk manager.

Question 1.2: Is the Risk management process delegated to someone in your department?

The respondent's reply was, 64 percent yes and 36 percent no. All departments should have a dedicated risk champion. If an official is not aware of whom the responsible person regarding risk management is, they would not know who to report to.

Question 1.3: Do you have Performance Management such as KPAs and KPIs in employment contracts within your department?

100 percent of respondents replied yes.

Question 1.4: Does the Risk manager/delegated authority of Sedibeng DM often have meetings with your department?

82 percent of managers replied no, nine percent replied yes, and nine percent replied unsure. Structured meetings are of utmost importance in order to effectively and continuously manage risk. There is currently a huge gap in this regard and urgent attention should be given to better the situation.

Question 1.5: Do you operate within the terms of a Risk Management Strategy (RMS)?

64 percent of managers replied yes. 18 percent replied no, and 18 percent replied unsure. This could be seen as a problem. 36 percent of respondent managers were unsure or replied no. Managers should all be aware and operate within the terms of the risk management plan.

Question 1.6.1: Does the RMS take into account user guidelines on how to implement the RMS?

27 percent of respondents replied yes, nine percent replied unsure and 64 percent replied no.

Question 1.6.2: Does the RMS take into account a plan of action to improve risk management?

64 percent of respondents replied yes, nine percent were unsure, and 27 percent replied no.

Question 1.6.3: Does the RMS take into account proper instruction on how to identify risks?

55 percent of respondents replied yes, 27 percent were unsure, and 18 percent replied no.

Question 1.6.4: Does the RMS take into account proper instructions on how to evaluate risks?

64 percent of respondents replied yes, 18 percent replied unsure, and 18 percent replied no.

Question 1.6.5: Does the RMS take into account proper instruction on treatment of risks?

73 percent of respondents replied yes, nine percent replied unsure, and 18 percent replied no.

Question 1.6.6: Does the RMS take into account detail of review and monitoring of the RMS?

36 percent of respondents replied yes, 18 percent replied unsure, and 46 percent replied no.

Question 1.6.7: Does the RMS take into account a plan of action to improve Risk Management?

64 percent of respondents replied yes, 18 percent replied unsure, and 18 percent replied no.

Considering questions 1.6.1 to 1.6.7, it can be seen that the responses vary from predominantly yes, to unsure and no. If proper training is provided to

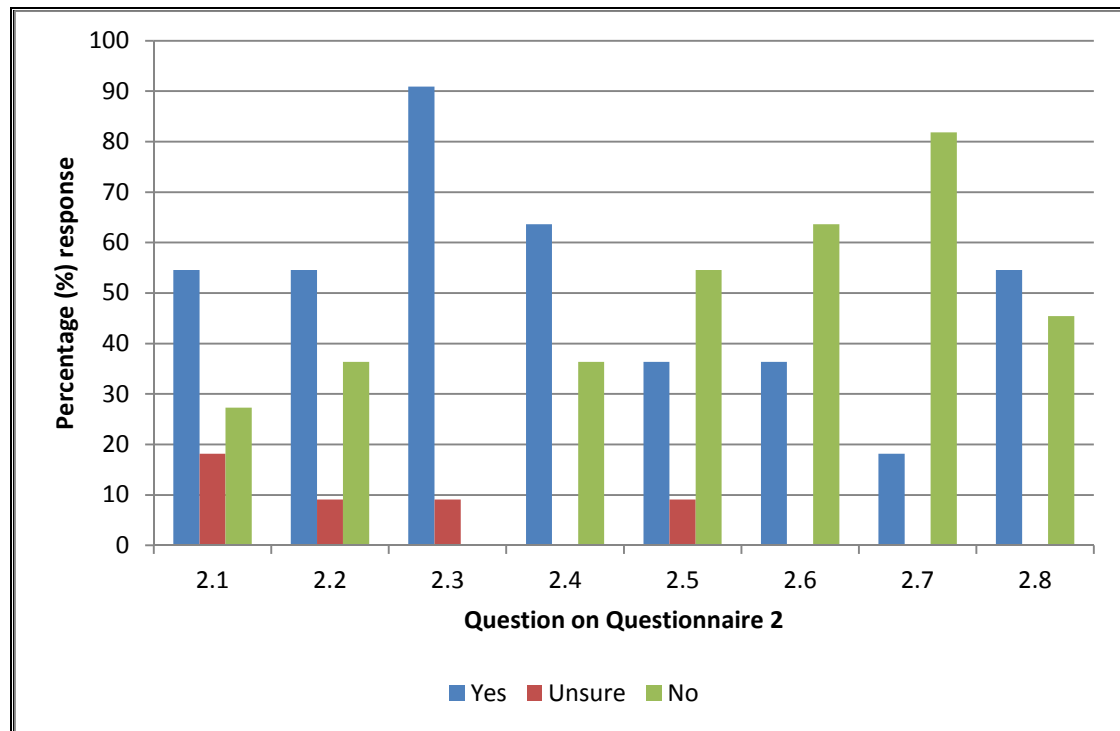
managers on how to manage within the term of the risk management strategy the outcome should change to almost only yes answers from respondents.

4.6.2.2 Group 2 – Integration of risk management activities

Section 2 aimed at determining the integration of risk management respondents from Group 2 were implementing within Sedibeng DM. Figure 4.10 summarises the responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent’s outcomes.

Figure 4.10: Group 2 – Integration of risk management activities



Source: Own compilation

Question 2.1: Does SDM practice Enterprise Risk Management (ERM) as a broad-based application in all major functions and activities rather than only in selected areas?

55 percent of respondents replied yes, 18 percent were unsure, and 27 percent said no. Sedibeng DM does practice ERM and managers should be informed of this and how ERM works.

Question 2.2: Is the risk considered on performance regardless of whether risk is internally or externally generated?

55 percent of respondents replied yes, nine percent were unsure and 36 percent replied no.

Question 2.3: Are you aware of compliance with various legislations that prescribe specific treatment of risk?

91 percent of respondents replied yes and nine percent replied no.

Question 2.4: Does your department have an organizational structure that ensures effective co-ordination of RM activities?

64 percent of respondents replied yes and 36 percent replied no. This should be done by appointing risk champions within all the departments.

Question 2.5: Does your department have adequate human resources capacity, with the right skills to implement the RM strategy?

55 percent of respondents replied no, 9 percent were unsure, and 36 percent replied yes. The situation can be improved with proper training of staff regarding risk management.

Question 2.6: Do you provide or have access to training and support to everyone involved in RM activities?

Respondents replied the following, 36 percent yes and 64 percent no. It is clear that most of the respondents do not have access and training support.

Question 2.7: Is funding available to cover the cost of implementing, maintaining and continuously improving of RM and control?

82 percent of respondents replied no and only 18 percent believe enough funding is available.

Question 2.8: Does your department have unit/s, working groups and committees to co-ordinate exposure to risk?

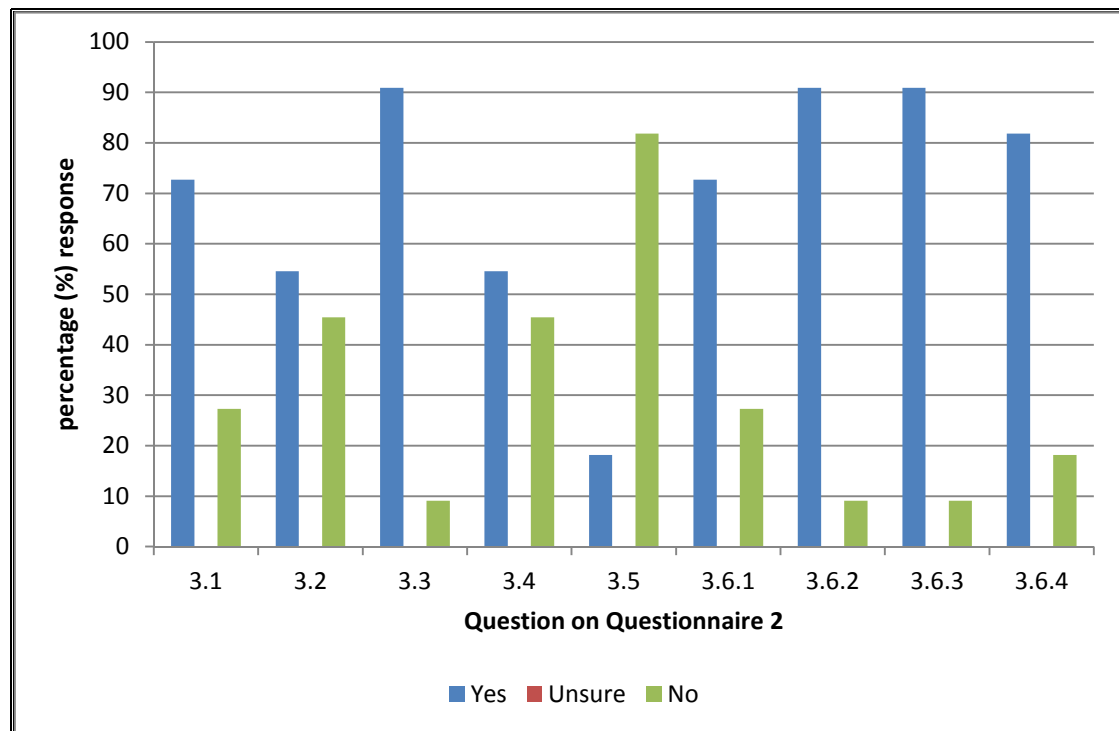
55 percent of respondents replied yes, and 45 percent replied no. This could be solved by appointing risk champions within all departments.

4.6.2.3 Group 2 – Risk identification

Section 3 aimed at determining the degree of risk identification respondents from Group 2 were implementing within Sedibeng DM. Figure 4.11 summarises the responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent's outcomes.

Figure 4.11: Group 2 – Risk identification



Source: Own compilation

Question 3.1: Does your department have a comprehensive inventory of risks that might prevent, degrade, delay or enhance the achievement of objectives?

73 percent of respondents replied yes and 27 percent replied no. All departments should have a risk register or inventory. An example is attached as appendix J.

Question 3.2: Is the risk identification an on-going process to identify new and emerging risks timorously within your department?

55 percent replied yes and 45 percent replied no. Risk identification should be an on-going and continuous process.

Question 3.3: Do you identify all risks within your department, regardless of whether or not such risks are within the direct control of the your department?

Respondents replied as follow, 91 percent yes and nine percent no.

Question 3.4: Is risk identification the priority of all officials in your department or are there only a few officials responsible for this?

55 percent replied yes and 45 percent replied no. Risk identification should be the priority of all officials.

Question 3.5: Does your department hold risk workshops and interviews to identify, filter and screen risks?

Respondents replied as 18 percent yes and 82 percent no. There is a lack of sufficient training and workshops within the various departments.

Question 3.6.1: Does your department identify risk factors through considering both internal and external factors for Strategic risk identification?

73 percent of respondents replied yes and 27 percent replied no.

Question 3.6.2: Does your department identify risk factors through considering both internal and external factors for operational risk identification?

91 percent of respondents replied yes and nine percent replied no.

Question 3.6.3: Does your department identify risk factors through considering both internal and external factors for project risk identification?

91 percent of respondents replied yes and nine percent replied no.

Question 3.6.4: Does your department identify risk factors through considering both internal and external factors for Project risk identification?

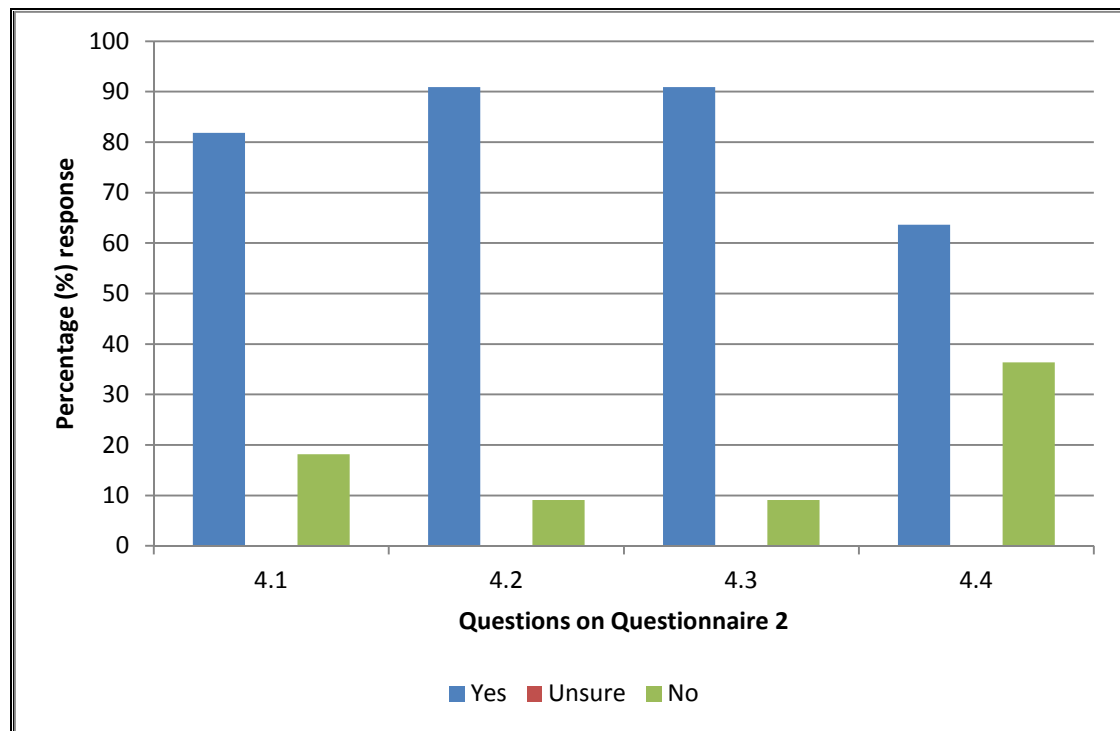
82 percent of respondents replied yes and 18 percent replied no.

Risk identification processes (questions 3.6.1 to 3.6.4) could be seen as being at an acceptable level as most questions were answered yes.

4.6.2.4 Group 2 – Risk assessment

Section 4 aimed at determining the degree of risk assessment respondents from Group 2 were implementing within Sedibeng DM. Figure 4.12 summarises the responses. Each question will be listed as presented in the questionnaire and then analysed according to the respondent’s outcomes.

Figure 4.12: Group 2 – Risk assessment



Source: Own compilation

Question 4.1: Does your department undertake risk assessment to quantify or qualify the level of risk associated with specific threat or event?

82 percent of respondents replied yes and 18 percent replied no.

Question 4: Does your department prioritize the most important risks?

91 percent of respondents replied yes and only nine percent replied no.

Question 4.3: Does your department apply assessment based on the likelihood of the risk occurring and the impact of its occurrence?

91 percent of respondents replied yes and only nine percent replied no.

Question 4.4: Do you re-assess risks at least once a year, to ascertain the shift in magnitude of risk and the need for management action?

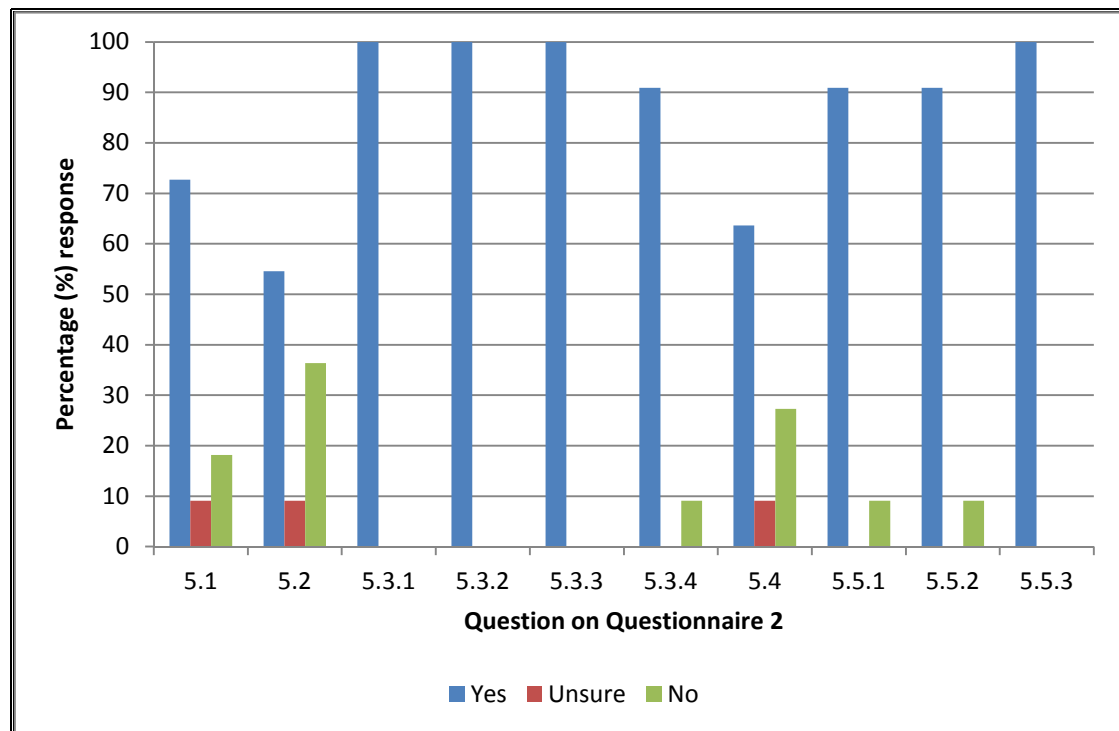
64 percent of respondents replied yes and 36 percent replied no. More emphasis should be made regarding regular assessment of risks.

4.6.2.5 Group 2 – Risk assessment

Section 5 aimed at determining the degree of risk response respondents from Group 2 were implementing within Sedibeng DM. Figure 4.13 summarises the responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent's outcomes.

Figure 4.13: Group 2 – Risk response



Source: Own compilation

Question 5.1: Does your department have a strategy to reduce or eliminate the threats and events that create risks?

73 percent of respondents replied yes, nine percent were unsure and 18 percent replied no.

Question 5.2: Do you have a range of options on how to mitigate and resolve identified risks?

55 percent of respondents replied yes, nine percent were unsure and 36 percent replied no. This can improve by creating mitigation options.

Question 5.3.1: Where the management of risk is within the control of your department, do the response strategies consider avoiding the risk?

All respondents replied yes.

Question 5.3.2: Where the management of risk is within the control of your department, do the response strategies consider treating the risk?

All respondents replied yes.

Question 5.3.3: Where the management of risk is within the control of your department, do the response strategies consider transferring the risk?

All respondents replied yes.

Question 5.3.4: Where the management of risk is within the control of your department, do the response strategies consider accepting the risk?

91 percent of respondents replied yes and only nine percent replied no.

Question 5.4: Where management of risks is not within the control of your department, do the response strategies consider measures such as forward planning?

64 percent of respondents replied yes, nine percent were unsure, and 27 percent replied no.

Question 5.5.1: Do you have internal control architecture to mitigate risks through preventative controls to prevent errors or irregularities from occurring?

91 percent of respondents replied yes and only nine percent replied no.

Question 5.5.2: Do you have internal control architecture to mitigate risks through detective controls to find errors after they have occurred?

91 percent of respondents replied yes and only nine percent replied no.

Question 5.5.3: Do you have internal control architecture to mitigate risks through corrective controls that operate together

with detective controls to correct errors or irregularities?

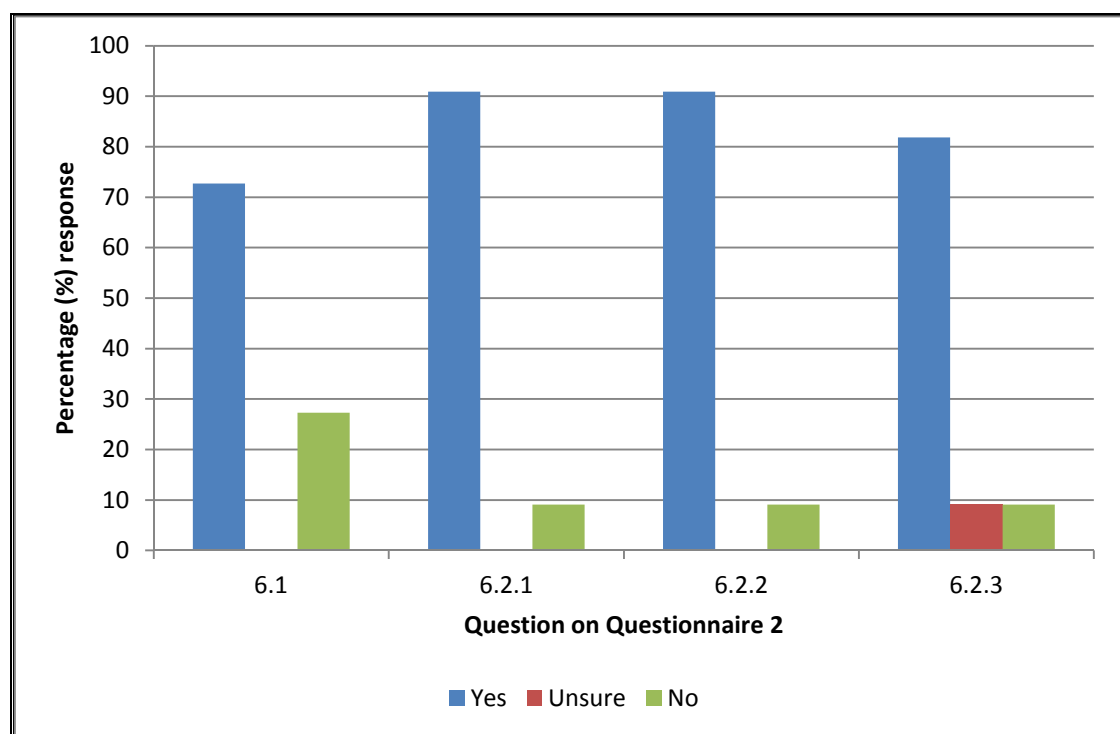
All respondents replied yes.

4.6.2.6 Group 2 – Risk monitoring

Section 6 aimed at determining the degree of risk monitoring respondents from Group 2 were implementing within Sedibeng DM. Figure 4.14 summarises the responses.

Each question will be listed as presented in the questionnaire and then analysed according to the respondent’s outcomes.

Figure 4.14: Group 2 – Monitoring



Source: Own compilation

Question 6.1: Do you perform regular risk monitoring in your department?

73 percent of respondents replied yes and 27 percent replied no.

Question 6.2.1: Do your monitoring activities focus on determining if allocated responsibilities are being executed effectively?

91 percent of respondents replied yes and nine percent replied no.

Question 6.2.2: Do your monitoring activities focus on determining if response strategies are producing the desired result of mitigating risks?

91 percent of respondents replied yes and nine percent replied no.

Question 6.2.3: Do your monitoring activities focus on determining if a positive correlation exists between improvements in the system of risk management and financial performance?

82 percent of respondents answered yes, nine percent were unsure and nine percent answered no.

4.6.3 Department specific risks

Question seven within the questionnaire requested the respondents to list any specific department risks that they would like to be resolved or eliminated. The response was as follows for Group 1:

- Risk of tender fraud;
- Non-compliance by officials;
- Lack of maintenance at certain municipal building;
- No or very few risk management workshops are held;
- Management and staff not managing risk appropriately within their departments;
- Officials and staff not adhering to internal controls and procedures;

- Lack of feedback and training for staff members;
- Lack of proper disclosure of information;
- Internal audit not on-site;
- Electrical wires exposed and loose in some offices;
- Insufficient fire preventions systems in server room; and
- No functional risk management structure to monitor and assess risks or to advise management accordingly.

Group 2 reported the following risks within their departments:

- Unfunded mandates;
- Deviations on value chain;
- Lack of ability to compile business plans by clusters to initiate funding;
- Viability and sustainability of long term financial plan;
- Archiving of financial documents;
- Limited office space;
- Staff shortages;
- Lack of funding for programs (budget shortages);
- Too many employees performing functions not considered as core functions;
- Employees working outside of their competency;
- Organisational culture of poor performance in certain areas;
- Lack of compliance in certain areas;
- Lack of safe-keeping and availability of data;

- Insurance risk – assets being under insured; and
- Departments not following correct procedures.

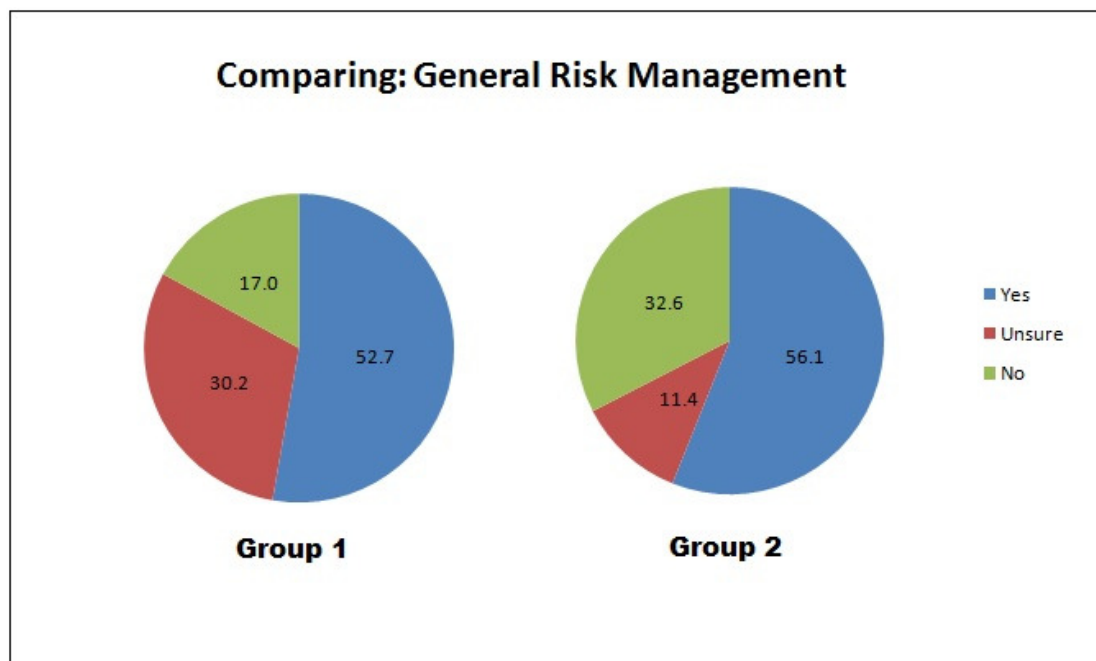
4.6.4 Comparisons between average response in Group 1 and Group 2

In this section comparisons will be made to the outcome of the average response per section between Group 1, which consisted of employees not in management positions, and Group 2, which consisted of officials in management positions. The reason for this is to determine if the degree of risk management knowledge and skills differ from Group 1 to Group 2

4.6.4.1 Comparison of general risk management analysis

This section of the questionnaire aimed at determining the level of general risk knowledge respondents have. Figure 4.15 depicts the comparison.

Figure 4.15: Comparison – General risk management



Source: Own compilation

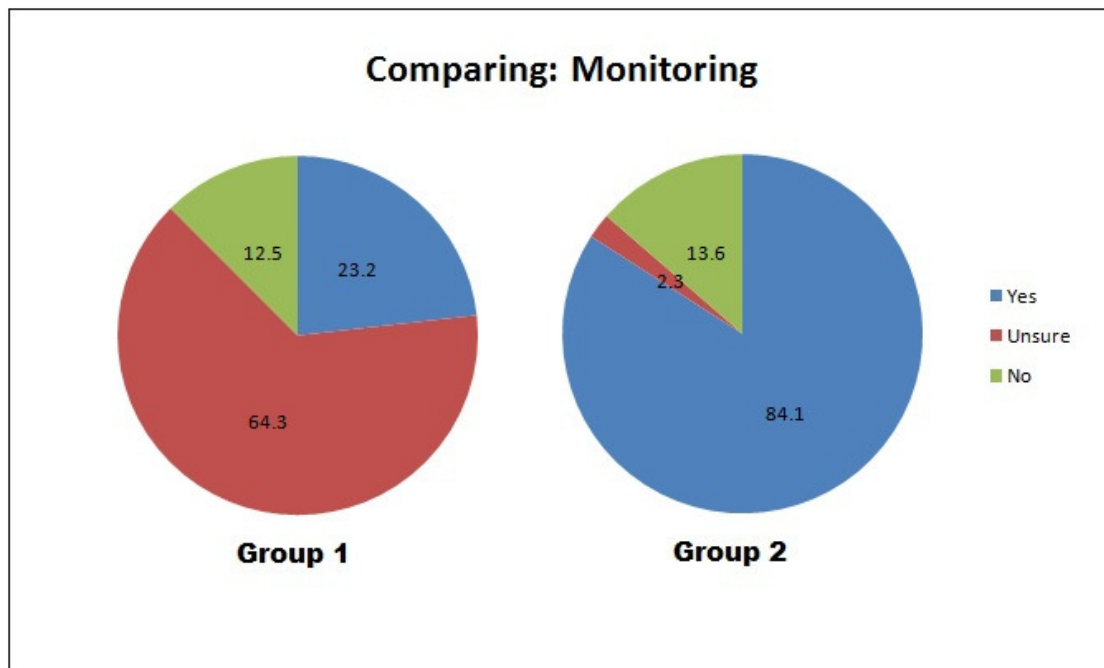
In Group 1, 53 percent of respondents replied yes to questions, 30 percent were unsure, and 17 percent replied no. In Group 2, 56 percent of respondents replied yes to questions, 11 percent were unsure, and 36 percent

replied no. The conclusion that can be made if question content is taken into account is that Group 1 is more unsure about some of the terms and questions asked than Group 2. Group 1 and 2 answered yes consistently, and Group 2 answered no to more questions than Group 1.

4.6.4.2 Comparison of monitoring activities

This section of the questionnaire aimed at determining the level of risk monitoring respondents implement within their departments. Figure 4.16 depicts the comparison.

Figure 4.16: Comparison – Monitoring



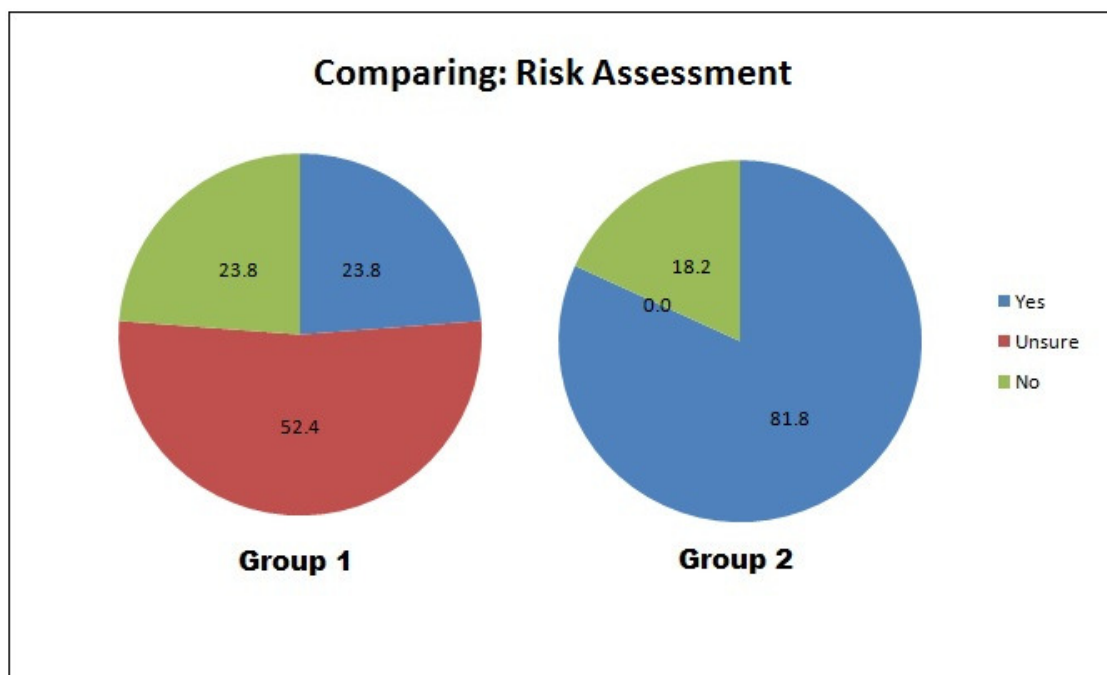
Source: Own compilation

In Group 1, 23 percent of respondents replied yes to questions, 64 percent were unsure and 13 percent replied no. In Group 2, 84 percent of respondents replied yes to questions, two percent were unsure, and 14 percent replied no. The conclusion that can be made if question content is taken into account is that Group 1 is unsure about some of the terms and questions asked in this section regarding monitoring. Training and workshops should be arranged to inform officials how monitoring of risks is done. Group 2 is aware of how monitoring systems regarding risk management works.

4.6.4.3 Comparison of risk assessment activities

This section of the questionnaire aimed at determining the level of risk assessment activities respondents implement within their departments. Figure 4.17 depicts the comparison.

Figure 4.17: Comparison –Risk assessment



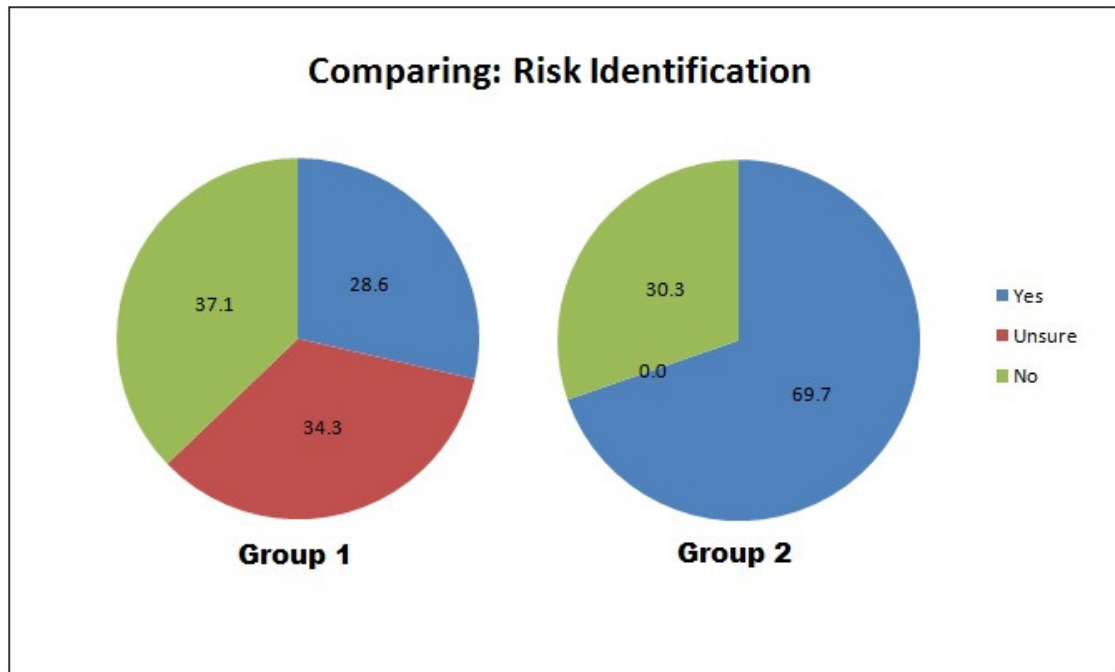
Source: Own compilation

In Group 1, 24 percent of respondents replied yes to questions, 52 percent were unsure and 24 percent replied no. In Group 2, 82 percent replied yes to questions, none were unsure, and 18 percent replied no. The conclusion that can be made if question content is taken into account is that Group 1 is unsure about some of the terms and questions asked in this section regarding risk assessment. Training and workshops should be arranged to inform officials how assessment of risks is done, and also why it is important. Group 2 is implementing risk assessment to a large extent within their various departments.

4.6.4.4 Comparison of risk identification activities

This section of the questionnaire aimed at determining the level of risk identification activities respondents implement within their departments. Figure 4.18 depicts the comparison.

Figure 4.18: Comparison –Risk identification



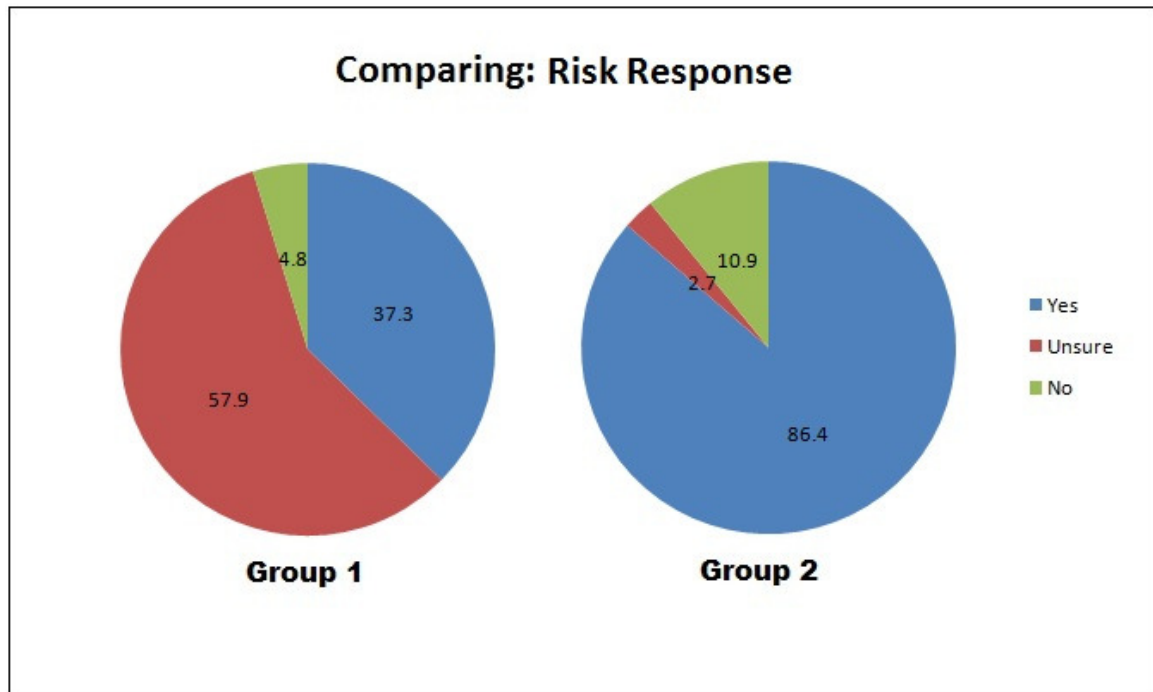
Source: Own compilation

Group 1 – 29 percent replied yes to questions, 34 percent were unsure and 37 percent replied no. Group 2 – 70 percent replied yes to questions, none were unsure, and 30 percent replied no. The conclusion that can be made if question content is taken into account is that Group 1 is unsure about some of the terms and questions asked in this section regarding risk identification. They also replied no too many of the questions meaning that proper identification methods are not in place. Training and workshops should be arranged to inform officials how identification of risks is done and also why it is important. Group 2 is mostly aware of risk identification processes; however it can be improved by means of better training.

4.6.4.5 Comparison of risk response activities

This section of the questionnaire aimed at determining the level of risk response activities respondents implement within their departments. The comparison is made in figure 4.19.

Figure 4.19: Comparison –Risk response



Source: Own compilation

In Group 1, 37 percent of respondents replied yes to questions, 58 percent were unsure, and five percent replied no. In Group 2, 86 percent of respondents replied yes to questions, three percent were unsure, and 11 percent replied no. The conclusion that can be made if question content is taken into account is that Group 1 is unsure about some of the terms and questions asked in this section regarding risk response. Proper risk response methods are not in place. Training and workshops should be arranged to inform officials how risk response is done and also why it is important. Group 2 is implementing proper risk response procedures.

4.6.5 Specific comparison of certain questions

Further analysis was done in order to determine the specific outcomes of the two groups. Nine questions throughout the two questionnaires were chosen. The nine questions were exactly the same in both the questionnaires. The outcome of the analysis is listed in table 4.12:

Table 4.12: Conclusion of specific question comparison

Conclusion
<p>Since the sample size (n) was smaller than $20 - n < 20$ – normality cannot be assumed. A non-parametric test was used to test whether observations in one sample tend to be larger than observations in the other.</p> <p>Hypothesis Test:</p> <p>Ho : The observations in Group 2 are equal to the observations in Group 1, that is to say Group 2 has more knowledge about the particular topics than Group 1.</p> <p>Ha : The observations in Group 2 are not larger than the observations in Group 1, that is to say Group 2 has less knowledge about the particular topics than Group 1.</p> <p>Reject Ho when $R^* > R(\text{critical})$, when testing at a significance level (α) = 0.01 – that is we are 99% confident.</p> <p>So: $R^* = 49$</p> <p>So: $R(\text{critical}) = 56$</p> <p>Since $R^* < R(\text{critical})$ we do not reject Ho, and conclude that: The observations in Group 2 are larger than the observations in Group 1, that is to say Group 2 has more knowledge about the particular topics than Group 1.</p>

Source: Own Compilation

The outcome of the analysis indicated that Group 2 (managers and directors), has more knowledge regarding the risk management procedures than Group 1 (officials not in management positions).

4.7 CONCLUSION

This chapter discussed the status quo regarding risk management implementation and tools that currently exist within the Sedibeng DM. Three years of audit reports was also summarised.

The questionnaire design, ethics and permissions obtained were discussed. The analysis of the questionnaires was done in detail. From the questionnaire analysis it can be concluded that there are many shortcomings regarding risk management and assessment within the Sedibeng DM. These shortcomings are however possible to resolve with proper training and workshops.

It was also concluded that there is a prominent difference in the responses from Group 1 (officials who are not in management positions) and Group 2 (officials in management positions). Group 2 were more aware of the processes and procedures regarding risk management. This should be the case as they are seen as the leaders and management of the various departments.

Chapter 5 will discuss possible recommendations regarding the outcome of the analysis, as well as discuss the main findings and conclusion of the research study.

CHAPTER 5

FINDINGS, CONCLUSION AND RECOMMENDATION

“Risk and time are opposite sides of the same coin, for if there were no tomorrow there would be no risk” - Peter Bernstein, Against the Gods

5.1 INTRODUCTION

The word risk within the English language was derived from the Italian work *riscare*, which means ‘to dare’ (Garret, 2003:194). Garret claims that risk is concerned with real or possible events that can affect an organisation from achieving its objectives and goals. Risk management is an important function within private and public organisations. According to van Niekerk (2012:66), municipalities must address challenges, and constraints in order to improve financial management, and risk management as well as control responsibilities considered internal. In this case, one of the challenges and constraint that needs to be improved is risk management. Without proper planning and risk assessment procedures, serious losses could occur within a municipality. Management should not only be responsible to identify risks but ensure that sufficient and effective plans of action regarding assessment and monitoring of the identified risks are in place (Turnbull Report, 2005:12). In the past, organisations mostly dealt with financial risk. In recent years, a much broader risk framework was identified. All risks eventually have a financial implication on the organisation (Rossouw & van Vuuren, 2010:218).

This chapter will discuss the final issues within this study namely analysis of best practices as discussed in Chapter 3, discussion of the survey findings, final recommendations, discussing of the research objectives and theoretical statement, future research, limitations of this study, and lastly the final conclusions. The main aim of this study was to examine the shortcomings regarding sound financial management and proper risk management procedures.

5.2 SUMMARY OF THE STUDY

Chapter 1 introduced the study and included issues such as orientation, theoretical statement, research questions and objectives, research design and methodology as well as the chapter layout.

Theoretical analysis regarding risk management and financial management formed the content of *Chapter 2*. This chapter addressed the key theoretical issues and discussions regarding risk and financial management. It provided an overview of concepts, definitions, policies, and regulation of the key issues to be addressed in the research study. The main acts regarding the study topic was also addressed and summarised.

Chapter 3 looked at best practice strategies and case studies at a number of local municipalities. The chapter investigated best practice case studies regarding sound financial and risk management policies within municipalities and institutions.

The status quo analysis at Sedibeng District Municipality was analysed in *Chapter 4*. The questionnaire design and outcome was also analysed in this chapter.

Chapter 5 concludes this study with findings, conclusion and recommendations.

5.3 BEST PRACTICE ANALYSIS

Chapter 3 analysed case studies as well as best practice guides regarding financial and risk management. One of the studies was the case of “Queensland Australia: Best practice guide to risk management. This is a very useful guide and the findings can be used to improve local risk management strategies. The main points of the guide are summarised and analysed below.

Principles of a risk management framework should include:

- List the risks according to acceptability;

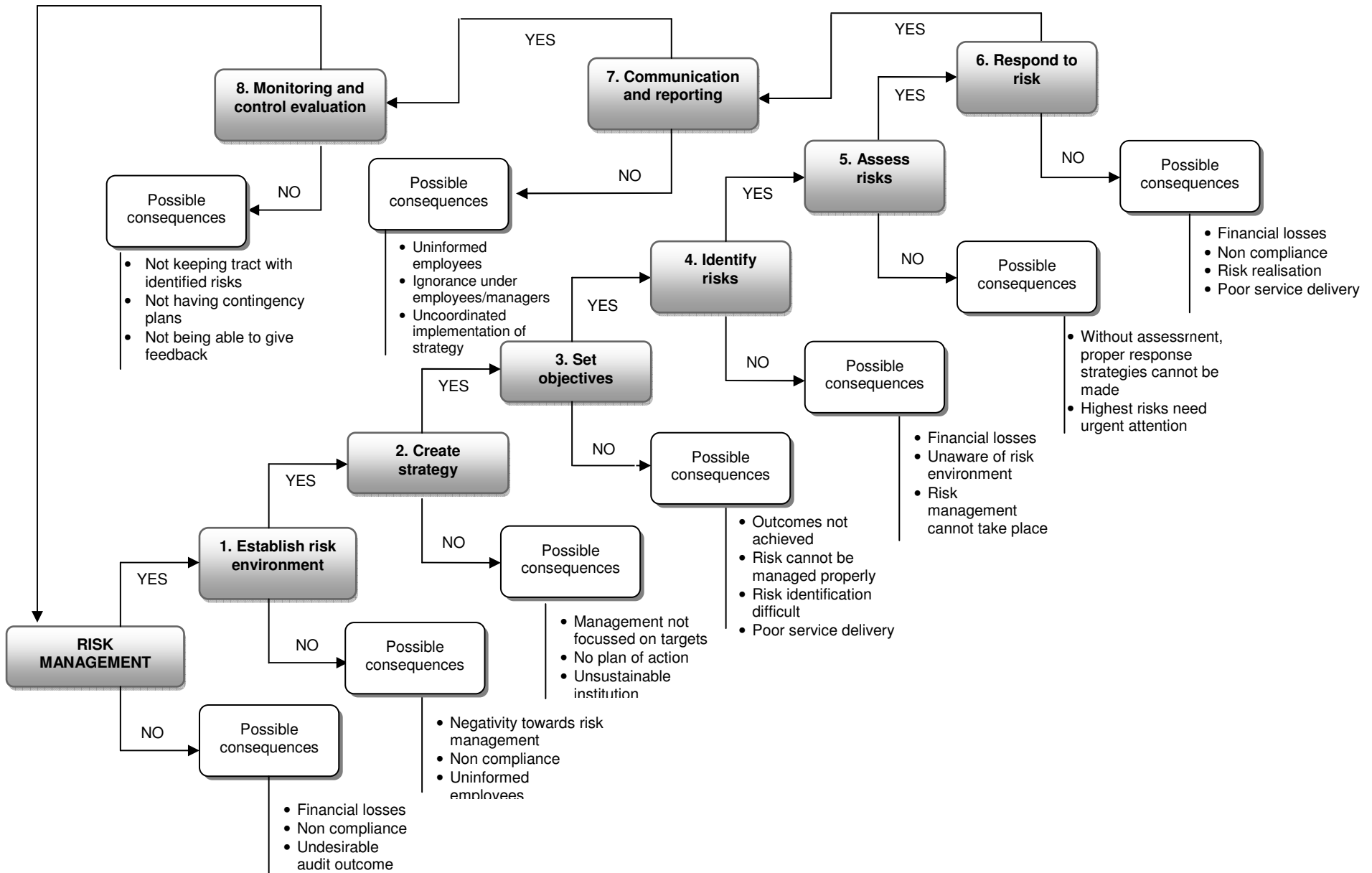
- List the responsibilities of the risk management team or committee;
- List the objectives of risk management within a municipality;
- List the range and extent of risk management;
- Link the risk management strategy with the strategic planning process;
- Communicate all decision and policies/strategies with all stakeholders within the municipality.

A risk management decision tree was created that can assist managers as well as employees in understanding the risk management process better. This decision tree will also assist in knowing which steps should be taken in order to improve the risk management process. Improvement in risk management processes could consequently lead to better financial management and result. The risk management decision tree is illustrated in figure 5.1.

Figure 5.1: Risk management decision tree

See next page.

Source: Own Compilation



5.4 SURVEY FINDINGS

The survey findings are listed in the following sections.

5.4.1 General findings

The outcome of the questionnaire survey from Chapter 4, highlighted many problems within the municipality regarding risk management. These problems were also identified in 2011 within the ERMF of Sedibeng DM. They include:

- Compliance – risk management is only seen as compliance and not considered important on a operation level;
- Lack of support – there is a lack of support from senior risk management delegation such as the Chief Risk Officer, and/or risk committees;
- “Silo” approach – risk management is being practiced on an individual level and not in terms of enterprise risk management;
- Perception – there is a perception that risk management will create more work for employees. If risk management is done properly it can actually reduce workloads;
- Lack of knowledge – there is a clear lack of knowledge regarding risk management requirements.

5.4.2 Specific findings per risk management step

The National Treasury Department released the Public Sector Risk Management Framework (PSRMF) during 2010. This document formed the basis of the questionnaire that was provided to the respondents. The following issues are highlighted within the PSRMF:

5.4.2.1 Risk identification

Risk identification forms the basis of risk management as it identifies the specific risks that need to be managed. The major issues regarding risk identification as per the PSRMF is listed below (South Africa, 2010:30-33):

- Managers, officials and employees must understand risk identification and more specifically risks within their particular mandate and position;
- All department should create and maintain a comprehensive risk inventory;
- Risk management should be an on-going and continuous process;
- All risks should be identified, not only the risks that are in the direct control of the department;
- All officials should identify risks and not just managers or directors;
- Regular risk management workshops should be schedules to identify new risks and communicate new solving techniques;
- Risks identification should be done on strategic as well as operational level.

Most of these issues were converted into questions within the various questionnaires. The specific outcomes and possible problem areas are listed below:

- More than 85% of respondents in group 1 (officials not in management positions) replied “unsure” or “no” to the question whether or not there is a comprehensive risk register. This however, was at an acceptable level with group 2 (officials in management positions) who replied 73% “yes” to the question.
- Most of the respondents in group 1 were “unsure” or answered “no” to the question regarding the frequency of risk identification. A total of 46% of group 2 responded “no” to this question. This could be alarming as risk identification should always be an on-going process. Most respondents either, “did not know” or “did not see” it as an on-going or continues process within their specific department.

- In total 88% of all respondents replied that none or limited workshops are held to identify and screen risks. This is clearly a problem and should be addressed.

5.4.2.2 Risk assessment

Risk assessment involves systematically quantifying and qualifying the various levels of risks. The major issues regarding risk assessment as per the PSRMF is listed below (South Africa, 2010:34-35):

- Risks should be prioritised according to most important down to least important;
- Risks should also be assessed according the predicted likelihood of the risk occurring;
- The impact of the risks occurring should be assessed.

These issues were converted into questions within the various questionnaires. The specific outcomes and possible problem areas are listed below:

- Group 1 respondents were once again mostly unsure regarding the assessment responsibilities regarding risk management. Only 21% replied that risk assessment was done in their departments.
- Group 2 responded positive to most of the risk assessment problems. It can be concluded that in general group 2 understands and is performing risk assessment within their specific departments.

5.4.2.3 Risk response

Risk response involves creating strategies in order to eliminate or reduce risk creating events. The major issues regarding risk response as per the PSRMF is listed below (South Africa, 2010:36-39):

- Risk response involves the identification of possible mitigation options;
- Response strategies should be designed;

- Some of the strategies includes avoiding risk, transferring risk, treating risk, and accepting risk;
- Internal control such as preventative measures, detective measures, and corrective measures should be developed by managers.

These issues were converted into questions within the various questionnaires. The specific outcomes and possible problem areas are listed below:

- Group 2, which were the managers and senior staff, responded positively to most of the questions and the scores were in most cases above a 90% yes answer.
- Group 1, which were the officials not in management positions, were once again mostly unsure regarding the response strategies. This could be due to lack in communication from managers as well as ignorance regarding risk management.

5.4.2.4 Risk communication and reporting

Risk communication and reporting involves creating strategies in order to timorously and in a proper manner, communicate issues relevant to risk management to the responsible mandate. The major issues regarding risk communication and reporting as per the PSRMF is listed below (South Africa, 2010:40):

- Risk communication should aim at assisting and enhancing in the decision making procedures;

These issues were converted into questions within the various questionnaires. The specific outcomes and possible problem areas are listed below:

- Group 1, which were the officials not in management positions, mostly replied “yes” to questions relating to communication and monitoring, however, a large percentage of them were still unsure about what was expected from them. This could be due to lack in communication from managers as well as ignorance regarding risk management.

- Group 2 was not asked questions pertaining to this section.

5.4.2.5 Risk monitoring

Risk monitoring involves creating strategies in order to check, on a regular basis, if risk management procedure implemented, are actually being used, and if they are reducing risks from occurring. The major issues regarding risk monitoring as per the PSRMF is listed below (South Africa, 2010:41):

- Risk monitoring must focus on evaluating if responsibilities allocated to various officials are being effectively and properly executed;
- Is the response strategies producing the outcome as initially planned or anticipated;

These issues were converted into questions within the various questionnaires. The specific outcomes and possible problem areas are listed below:

- Group 1, replied on average 64 percent “unsure”. This, once again, strengthens the conclusion that they are not properly trained or have the necessary knowledge regarding risk management. This can easily be resolved with proper training.
- Group 2, did not have a problem regarding monitoring as 84 percent, on average, replied “yes” to all of the questions. The only issue that can be improved is relating to the intervals on when the monitoring should occur. Only 27 percent of respondents replied “no” to performing regular risk monitoring activities in their departments.

5.5 FINAL RECOMMENDATIONS

Based on the outcome of the study as well as incorporating the analysis of the case studies and best practice guides the following recommendation is made.

5.5.1 Recommendations towards senior management and management

These steps are recommended in order to train and assist management level employees with the necessary skills and tools to promote sound risk management within their specific departments:

- Appoint a chief risk officer (CRO) – this position is currently vacant and most employees are not even aware of this;
- Schedule a risk management workshop with the CRO and all senior managers – this will ensure that managers are aware of their responsibilities towards risks management in their specific department;
- Provide each manager with a copy of the risk management strategy (RMS) – this will allow them to read through it and note important issues;
- Provide training – proper training regarding risk identification, management and implementation of mitigation strategies should be done. This can initially be done by temporarily appointing an external risk management consultant who will train and assist managers in risk management strategies;
- Promote encouragement regarding risk management – managers are advised to encourage risk management in their specific department. This will create a positive attitude towards risk management.
- Compliance – although it is important that risk management should be done as part of municipal compliance, it should also form part of all managers' duties. The culture within the municipality should be changed to form a enabling environment for risk management.

5.5.2 Recommendations towards officials not in management positions

These steps are recommended in order to train and assist employees not in management positions with the necessary skills and tools to promote sound risk management within their specific departments:

- Supply each staff member with an electronic copy of the RMS – this will enable them to read and make notes. It will also provide useful training and information that they were lacking during the questionnaire interviews;
- Arrange for workshops – this will enable officials to respond towards risk issues with key risk managers. Attending workshops will also provide employees with confidence to report future risk issues timorously;
- Appoint risk champions – make sure that the employees know who the risk champions are within their department. Risk champions are identified employees who will assist with risk queries as well as report back to management.

5.6 REALISATION OF RESEARCH OBJECTIVE AND THEORETICAL STATEMENT

This section will address the five research objectives and if they were addressed within the study. The following study objectives were outlined:

- To provide a theoretical exposition for the term risk management and investigate its relationship with sound financial management. This was done and the objective was met in Chapter 2.
- To describe the existing risk management system at Sedibeng District Municipality. This was done and the status quo of Sedibeng DM was analysed in Chapter 4.
- To conduct research into the effectiveness of risk management systems and to identify the different areas where risk management systems can

improve in relation to financial management at Sedibeng District Municipality. This was done and the improvements and recommendation are listed in Chapter 5.

- To compare current risk management and financial management best practice policies in other areas to Sedibeng District Municipality. This was done and the analysis was captured in Chapter 3 and best practice suggestions were provided on Chapter 5.
- To give recommendations towards the improvement of risk management systems at Sedibeng District Municipality. This was addressed in Chapter 5.

5.7 FUTURE RESEARCH

Future research will include further investigation on the topic of risk management within local government sectors as well as investigating risk management strategies and shortcomings within private institutions. The intension is to increase the sample of respondents and also test the hypothesis in other municipalities. More case studies and best practice guides will be analysed in order to find the perfect risk management tools in order to increase the financial well-being within local governments.

A serious game will be created in conjunction with the Serious Games Institute (SGI) situated within the North West University (NWU). This game will aim at training all government staff, from officials to managers to directors to political members within any municipality in South Africa. The game will be created in the form of an application (APP) that can be loaded onto any computer device. The aim of the game is to take the players of the game (municipal officials) on a journey regarding all the different aspects and stages of risk management. After successfully completing each stage of the game, a new skill would have been learnt by the player regarding risk management.

5.8 LIMITATIONS OF THE RESEARCH

Limitation within this study can be summarised as the following:

- Not all the respondents returned the questionnaires in time;
- The political officials only completed one questionnaire and this was insufficient to make useful assumptions;
- The municipal manager and the executive mayor did not complete the questionnaires provided to them;
- The outcome of the study may differ if a different sample municipality was used.

These limitations will be addressed in further studies. It is believed that the limitations to this study did not affect the usefulness and reliability of the outcome.

5.9 FINAL CONCLUSION

A well-established risk management program is based on three critical mechanisms, namely a centralised unit with trained staff, formal risk management policies, and a good record-keeping system (Ceo, 1989:188-189).

Sedibeng District Municipality has up-to-date risk management strategies as well as additional tools in order to assist with proper risk management. This was determined during the status quo analysis. Some of the documents include the Sedibeng DM Risk Management Strategy as well as the Risk Management Handbook, which were both discussed in Chapter 4. Up to date risk registers are also in place within most of the departments. The problem lies in the implementation, reporting and monitoring of the identified risks or as Ceo (1989:188-189) stated: a centralised unit with trained staff. This was established through the questionnaire procedure. Most of the respondents from Group 1 need proper training regarding risk management procedure and processed within the municipality as well as within their specific departments. Group 2 requested that proper training and workshops be held on regular intervals, as well as support from the risk management committee. There is currently neither such committee nor a chief risk officer within the municipality.

Most of the risk management competencies are done within and by the finance department. The questionnaire analysis also indicated that most of the officials who were unsure or replied no to the questions were situated outside of the finance department. This is normal, as the finance department needs to implement risk management as a core task within their competency. However, also noted, was that most of the findings mentioned within the audit report come from issues originating outside of the finance department.

The conclusion and final recommendation is made that Sedibeng DM should appoint a CRO, properly train a risk committee, who should arrange for risk workshops with all departments and officials on all levels. Risk champion should also be identified within each department.

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APPENDIX A
QUESTIONNAIRE 1
ALL OFFICIALS NOT IN MANAGEMENT OR POLITICAL
POSITION

RISK MANAGEMENT STATUS QUO QUESTIONNAIRE

	Yes	Maybe/ Unsure	No
1. GENERAL RISK ANALYSIS			
1.1			
1.2			
1.3			
1.4			
1.5			
1.5.1	If yes, to who is it delegated?		
1.6			
1.7			
1.8			
1.9			
1.10			
1.11			
1.12			
1.13			
2. RISK IDENTIFICATION			
2.1			
2.1.1	If yes, please supply details.		
2.2			
2.3			
2.4			
2.5			
3. RISK ASSESSMENT			
3.1			
3.2			
3.3			

	Yes	Maybe/ Unsure	No
4. RISK RESPONSE			
4.1	Does your department have a strategy to reduce or eliminate the threats and events that create risks?		
4.2	If yes, does the strategy make provision for the exploitation of opportunities to improve performance?		
4.3	Where the management of risk is within the control of your department, do the response strategies consider:		
4.3.1	Avoiding the risk. i.e. choosing a different strategy or terminating the activity?		
4.3.2	Treating the risk, i.e. implementing or improving internal controls?		
4.3.3	Transferring the risk to another party more competent of manage, i.e. contracting out services, establishing strategic partnerships and buying insurance?		
4.3.4	Accepting the risk where cost and strategy considerations rule out alternative strategies?		
4.4	Does your department document response strategies and responsibilities and timelines and communicate to the relevant RM Unit?		
4.5	Do you have internal control architecture to mitigate risks through:		
4.5.1	Preventative controls to prevent errors or irregularities from occurring, i.e. security to prevent theft?		
4.5.2	Detective controls to find errors after they have occurred, i.e. performance of reconciliation procedures to identify errors?		
5. COMMUNICATION AND REPORTING			
5.1	Does your department communicate relevant information, properly and timorously to equip relevant officials regarding RM?		
5.2	Does your department communicate responsibilities and actions relevant to completing information to enhance decision making and accountability?		
6. MONITORING			
6.1	Does your department perform regular risk monitoring and if yes, how often?		
6.2	Do your monitoring activities focussing on the following:		
6.2.1	Allocated responsibilities are being executed effectively?		
6.2.2	Response strategies are producing the desired result of mitigating risks?		
6.2.3	A positive correlation exists between improvements in the system of risk management and financial performance?		
7. DEPARTMENT SPECIFIC RISKS			
7.1	Please mention a few issues or areas that you think create unnecessary risk in your department and that you would like to be reduced or resolved.		
8. GENERAL AND OTHER INFORMATION			
8.1	Please list any additional thought or issues that you think might be relevant to this study.		

Thank you for your time and effort in completing this questionnaire!

APPENDIX B
QUESTIONNAIRE 2
ALL SENIOR MANAGEMENT OFFICIALS
(HOD'S, CFO'S AND MANAGERS)

RISK MANAGEMENT STATUS QUO QUESTIONNAIRE

		Yes	Maybe/ Unsure	No
1. GENERAL RISK ANALYSIS				
1.1	Do you have a Chief Risk Officer / Risk Manager and staff with necessary skills and competencies to manage risk within SDM?			
1.2	Is the Risk Management process delegated to someone in your department?			
1.2.1	If yes, to who is it delegated?			
1.3	Do you have Performance Management such as KPAs and KPIs in employment contracts within your department?			
1.3.1	If yes, mention a few KPA's and KPI's.			
1.4	Does the RM/delegated authority of SDM often have meetings with your department?			
1.5	Do you operate within the terms of a RMS?			
1.6	Does the RMS take into account the following:			
1.6.1	User guidelines on how to implement the RMS?			
1.6.2	A plan of action to improve risk management?			
1.6.3	Proper instruction on how to identify risks?			
1.6.4	Proper instructions on how to evaluate risks?			
1.6.5	Proper instruction on treatment of risks?			
1.6.6	Detail of review and monitoring of RMS?			
1.6.7	A plan of action to improve Risk Management?			
2. INTEGRATION OF RISK MANAGEMENT ACTIVITIES				
2.1	Does SDM practice enterprise Risk Management as a broad-based application in all major functions and activities rather than only in selected areas?			
2.2	Is the risk considered on performance regardless of whether risk is internally or externally generated?			
2.3	Are you aware of compliance with various legislations that prescribe specific treatment of risk?			
2.3.1	If yes, please specify which legislation.			
3. RISK IDENTIFICATION				
3.1	Does your department have a comprehensive inventory of risks that might prevent, degrade, delay or enhance the achievement of objectives?			
3.1.1	If yes, please supply details.			
3.2	Is the risk identification an on-going process to identify new and emerging risks timorously within your department?			
3.3	Do you identify all risks within your department, regardless of whether or not such risks are within the direct control of the your department?			
3.4	Is risk identification the priority of all officials in your department or are there only a few officials responsible for this?			
3.5	Does your department hold risk workshops and interviews to identify, filter and screen risks?			
3.6	Does your department identify risk factors through considering both internal and external factors for:			

	Yes	Maybe/ Unsure	No
3.6.1 <u>Strategic risk identification?</u> Identify risks emanating from strategic choices with regard to whether such choices weaken or strengthen the ability to execute the mandate of the department?			
3.6.2 <u>Operational risk identification?</u> Seek to establish vulnerabilities introduced by employees, internal processes and systems, contractors and external events?			
3.6.3 <u>Project risk identification?</u> Inherent to project risks for all major projects within the department?			
3.6.4 <u>Project risk identification?</u> Long term projects – project risk register reviewed at least once a year to identify new and emerging risks?			
4. RISK ASSESSMENT			
4.1 Does your department undertake risk assessment to quantify or qualify the level of risk associated with specific threat or event?			
4.2 Does your department prioritize the most important risks?			
4.3 Does your department apply assessment based on the likelihood of the risk occurring and the impact of its occurrence?			
4.4 Do you re-assess risks at least once a year, to ascertain the shift in magnitude of risk and the need for management action?			
5. RISK RESPONSE			
5.1 Does your department have a strategy to reduce or eliminate the threats and events that create risks?			
5.2 Do you have a range of options on how to mitigate and resolve identified risks?			
5.3 Where the management of risk is within the control of your department, do the response strategies consider:			
5.3.1 <i>Avoiding the risk</i> , i.e. choosing a different strategy or terminating the activity?			
5.3.2 <i>Treating the risk</i> , i.e. implementing or improving internal controls?			
5.3.3 <i>Transferring the risk</i> to another party more competent to manage, i.e. contracting out services, establishing strategic partnerships and buying insurance?			
5.3.4 <i>Accepting the risk</i> where cost and strategy considerations rule out alternative strategies?			
5.4 Where management of risks is not within the control of your department, do the response strategies consider measures such as forward planning?			
5.5 Do you have internal control architecture to mitigate risks through:			
5.5.1 Preventative controls to prevent errors or irregularities from occurring, i.e. security to prevent theft?			
5.5.2 Detective controls to find errors after they have occurred, i.e. performance of reconciliation procedures to identify errors?			
5.5.3 Corrective controls that operate together with detective controls to correct errors or irregularities?			
6. MONITORING			
6.1 Do you perform regular risk monitoring in your department and if yes, how often?			
6.2 Do your monitoring activities focusses on the following:			
6.2.1 Allocated responsibilities are being executed effectively?			

APPENDIX B

	Yes	Maybe/ Unsure	No
6.2.2			
6.2.3			
7. DEPARTMENT SPECIFIC RISKS			
7.1	Please mention a few issues or areas that you think create unnecessary risk in your department and that you would like to be reduced or resolved.		
8. GENERAL AND OTHER INFORMATION			
8.1	Please list any additional thought or issues that you think might be relevant to this study.		

Thank you for your time and effort in completing this questionnaire!

APPENDIX C
QUESTIONNAIRE 3
ALL POLITICAL OFFICIALS (COUNCILLORS AND MMC'S)

RISK MANAGEMENT STATUS QUO QUESTIONNAIRE

	Yes	Maybe/ Unsure	No
1. GENERAL RISK ANALYSIS			
1.1	Do you have a Chief Risk Officer / Risk Manager and staff with necessary skills and competencies to manage risk within SDM?		
1.2	Is the Risk Management process delegated to someone in your portfolio department?		
1.2.1	If yes, to who is it delegated?		
1.3	Does the RM/delegated authority of SDM often have meetings with Councillors / MMC's		
1.4	Does SDM operate within the terms of a RMS?		
1.5	Does the RMS take into account the following:		
1.5.1	User guidelines on how to implement the RMS?		
1.5.2	A plan of action to improve risk management?		
1.5.3	Proper instruction on how to identify risks?		
1.5.4	Proper instructions on how to evaluate risks?		
1.5.5	Proper instruction on treatment of risks?		
1.5.6	Detail of review and monitoring of RMS?		
1.5.7	A plan of action to improve Risk Management?		
2. INTEGRATION OF RISK MANAGEMENT ACTIVITIES			
2.1	Does SDM practice enterprise Risk Management as a broad-based application in all major functions and activities rather than only in selected areas?		
2.2	Are you aware of compliance with various legislations that prescribe specific treatment of risk?		
2.2.1	If yes, please specify which legislation.		
2.3	Does your portfolio department have an organizational structure / person that ensure effective co-ordination of RM activities?		
2.4	Does your portfolio department have adequate human resources capacity, with the right skills to implement the RM strategy?		
2.5	Do you provide or have access to training and support to everyone involved in RM activities?		
2.6	Is funding available to cover the cost of implementing, maintaining and continuously improving of RM and control?		
2.7	Does your portfolio department have unit/s, working groups and committees to co-ordinate exposure to risk?		
3. RISK IDENTIFICATION			
3.1	Does your portfolio department have a comprehensive inventory of risks that might prevent, degrade, delay or enhance the achievement of objectives?		
3.1.1	If yes, please supply details.		
3.2	Is the risk identification an on-going process to identify new and emerging risks timorously within your portfolio department?		
3.3	Is risk identification the priority of all officials in your portfolio department or are there only a few officials responsible for this?		
3.4	Does your portfolio department hold risk workshops and interviews to identify, filter and screen risks?		

	Yes	Maybe/ Unsure	No
4. RISK ASSESSMENT			
4.1	Does your portfolio department undertake risk assessment to quantify or qualify the level of risk associated with specific threat or event?		
4.2	Does your portfolio department prioritize the most important risks?		
4.3	Does your department apply assessment based on the likelihood of the risk occurring and the impact of its occurrence?		
4.4	Do you re-assess risks at least once a year or more, to ascertain the shift in magnitude of risk and the need for management action?		
5. RISK RESPONSE			
5.1	Does your portfolio department have a strategy to reduce or eliminate the threats and events that create risks?		
5.2	Where the management of risk is within the control of your portfolio department, do the response strategies consider:		
5.2.1	<i>Avoiding the risk</i> , i.e. choosing a different strategy or terminating the activity?		
5.2.2	<i>Treating the risk</i> , i.e. implementing or improving internal controls?		
5.2.3	<i>Transferring the risk</i> to another party more competent to manage, i.e. contracting out services, establishing strategic partnerships and buying insurance?		
5.2.4	<i>Accepting the risk</i> where cost and strategy considerations rule out alternative strategies?		
6. MONITORING			
6.1	Does your portfolio department perform regular risk monitoring and if yes, how often?		
6.2	Does your portfolio department monitor activities focussing on the following:		
6.2.1	Allocated responsibilities are being executed effectively?		
6.2.2	Response strategies are producing the desired result of mitigating risks?		
6.3	Do you think there is a positive correlation between improvements in the system of risk management and overall performance of SDM?		
7. DEPARTMENT SPECIFIC RISKS			
7.1	Please mention a few issues or areas that you think create unnecessary risk in your department and that you would like to be reduced or resolved.		
8. GENERAL AND OTHER INFORMATION			
8.1	Please list any additional thought or issues that you think might be relevant to this study.		

Thank you for your time and effort in completing this questionnaire!

APPENDIX D
QUESTIONNAIRE 4
MUNICIPAL MANAGER AND MAYOR

RISK MANAGEMENT STATUS QUO QUESTIONNAIRE

		Yes	Maybe/ Unsure	No
1. GENERAL RISK ANALYSIS				
1.1	Do you have a Chief Risk Officer / Risk Manager and staff with necessary skills and competencies to manage risk within SDM?			
1.2	Is the Risk Management process delegated to someone within SDM?			
1.2.1	If yes, to who is it delegated?			
1.3	Does the HOD's and other management officials adhere to Performance Management measures such as KPAs and KPIs in their employment contracts?			
1.3.1	If yes, mention a few KPA's or KPI's.			
1.4	Does the Risk Manager/delegated authority of SDM often have meetings with various departments?			
1.5	Does SDM operate within the terms of a RMS?			
1.6	Does the RMS take into account the following:			
1.6.1	User guidelines on how to implement the RMS?			
1.6.2	A plan of action to improve risk management?			
1.6.3	Proper instruction on how to identify risks?			
1.6.4	Proper instructions on how to evaluate risks?			
1.6.5	Proper instruction on treatment of risks?			
1.6.6	Detail of review and monitoring of RMS?			
1.6.7	A plan of action to improve Risk Management?			
2. INTEGRATION OF RISK MANAGEMENT ACTIVITIES				
2.1	Does SDM practice enterprise Risk Management as a broad-based application in all major functions and activities rather than only in selected areas?			
2.2	Does the various departments within SDM have an organizational structure that ensures effective co-ordination of RM activities?			
2.3	Does the various departments have adequate human resources capacity, with the right skills to implement the RM strategy?			
2.4	Does SDM provide or have access to training and support to everyone involved in RM activities?			
2.5	Is funding available to cover the cost of implementing, maintaining and continuously improving of RM and control?			
2.6	Does the various departments have unit/s, working groups and committees to co-ordinate exposure to risk?			
3. RISK IDENTIFICATION				
3.1	Does the various departments have a comprehensive inventory of risks that might prevent, degrade, delay or enhance the achievement of objectives?			
3.1.1	If yes, please supply details.			
3.2	Is the risk identification an on-going process to identify new and emerging risks timorously within SDM?			
3.3	Is risk identification the priority of all officials within SDM or are there only a few officials responsible for this?			
3.4	Does the various departments hold risk workshops and interviews to identify, filter and screen risks?			
3.5	Does the various departments identify risk factors through considering both internal and external factors for:			

	Yes	Maybe/ Unsure	No
3.5.1 <u>Strategic risk identification?</u> Identify risks emanating from strategic choices with regard to whether such choices weaken or strengthen the ability to execute the mandate of the department?			
3.5.2 <u>Operational risk identification?</u> Seek to establish vulnerabilities introduced by employees, internal processes and systems, contractors and external events?			
3.5.3 <u>Project risk identification?</u> Inherent to project risks for all major projects within the department?			
3.5.4 <u>Project risk identification?</u> Long term projects – project risk register reviewed at least once a year to identify new and emerging risks?			
4. RISK ASSESSMENT			
4.1 Does the various departments undertake risk assessment to quantify or qualify the level of risk associated with specific threat or event?			
4.2 Does the various departments prioritize the most important risks?			
4.3 Does the various departments apply assessments based on the likelihood of the risk occurring and the impact of its occurrence?			
4.4 Does SDM re-assess risks at least quarterly, to ascertain the shift in magnitude of risk and the need for management action?			
5. RISK RESPONSE			
5.1 Does SDM have a strategy to reduce or eliminate the threats and events that create risks?			
5.2 Does SDM have a range of options on how to mitigate and resolve identified risks?			
5.3 Where the management of risk is within the control of SDM, do the response strategies consider:			
5.3.1 <i>Avoiding the risk</i> , i.e. choosing a different strategy or terminating the activity?			
5.3.2 <i>Treating the risk</i> , i.e. implementing or improving internal controls?			
5.3.3 <i>Transferring the risk</i> to another party more competent to manage, i.e. contracting out services, establishing strategic partnerships and buying insurance?			
5.3.4 <i>Accepting the risk</i> where cost and strategy considerations rule out alternative strategies?			
6. MONITORING			
6.1 Does SDM perform regular risk monitoring within the various departments and if yes, how often?			
6.2 Does SDM monitoring activities focus on the following:			
6.2.1 Allocated responsibilities are being executed effectively?			
6.2.2 Response strategies are producing the desired result of mitigating risks?			
6.3 A positive correlation exists between improvements in the system of risk management and overall institutional performance?			
7. DEPARTMENT SPECIFIC RISKS			
7.1 Please mention a few issues or areas that you think create unnecessary risk in your department and that you would like to be reduced or resolved.			

	Yes	Maybe/ Unsure	No
8. GENERAL AND OTHER INFORMATION			
8.1	Please list any additional thought or issues that you think might be relevant to this study.		

Thank you for your time and effort in completing this questionnaire!

APPENDIX E
GATEKEEPER'S PERMISSION REQUEST



PO Box 1174, Vanderbijlpark
South Africa, 1900

Tel: 016 910-3111
Fax: 016 910-3116
Web: <http://www.nwu.ac.za>

Municipal Manager of the Sedibeng District Municipality

Dear Sir,

REQUEST FOR PERMISSION TO CONDUCT RESEARCH IN THE MUNICIPAL OFFICE

With this letter, I would please like to request permission to conduct research with officers in the Municipal Office. The purpose of the research project is to determine what risk management and financial management systems exist at Sedibeng District Municipality; how effective and beneficial are the risk management and financial management systems at Sedibeng District Municipality; what best practice models and policies can be used to improve current risk management systems at Sedibeng District Municipality; what recommendations can be made to improve the current risk management and financial management systems at Sedibeng District Municipality and how will improved risk management at Sedibeng District Municipality be linked to improved financial management? The outcomes of the study will aim at answering the above listed purposes of this study.

I request permission to conduct interviews with the Executive Mayor, MMC Finance, MMC Development and Planning, Municipal Manager, CFO, HOD: Engineering, HOD: Development and Planning, HOD: Human Resources, 3 x employees from Finance Department, 3 x employees from Human Resources Department, 2 x employees from Engineering Department and 2 x employees from Development and Planning Department.

The interviews will take between 15 and 30 minutes each. In these interviews, I will aim to determine the specific views of each interviewee on the extent of risk management hazards at the municipality and how these affect the financial management of the municipality. I hope to conduct these interviews during February and March 2013.

I foresee no risks as a result of the research process and I feel that Council could benefit from results of the study. Participation will be voluntary and data will be reported confidentially. The information will be used as part of the Masters Degree study, and parts of it might be published in articles in academic journals and presented at academic and other conferences. This study is also overseen by the NWU ethics sub-committee for Social and Behavioural Sciences.

I thank you for your attention to this request and I await your permission.

Yours sincerely

Mrs N Meyer

Researcher (Cell no 082 347 6611; E-mail address: natanya.meyer@nwu.ac.za)

APPENDIX F
RESPONDENT CONSENT FORM



**INFORMED CONSENT FORM: REQUEST TO PARTICIPATE IN INTERVIEW:
OFFICIALS AND EMPLOYEES CURRENTLY EMPLOYED BY THE SEDIBENG
DISTRICT MUNICIPALITY**

To the Interviewee: _____

REQUEST

With this letter you are kindly requested to please participate in an interview as part of a Master degree research project at the NWU-VTC under the supervision of Prof E Ababio. The interviews will take about 15 to 30 minutes each. The aim of the interviews is to determine the specific views of each interviewee on the extent of risk management hazards at the municipality and how these affect the financial management of the municipality. I will conduct these interviews during February 2013.

MORE DETAILS ABOUT THE RESEARCH PROJECT

RESEARCHER: N MEYER

TITLE OF RESEARCH PROJECT: An Appraisal of Risk Management as a Strategy to Promote Sound Financial Management at the Sedibeng District Municipality – Masters Degree study.

PURPOSE OF THE RESEARCH

- What risk management and financial management systems exist at Sedibeng District Municipality?
- How effective and beneficial are the risk management and financial management systems at Sedibeng District Municipality?
- What best practice models and policies can be used to improve current risk management systems at Sedibeng District Municipality?
- What recommendations can be made to improve the current risk management and financial management systems at Sedibeng District Municipality?
- How will improved risk management at Sedibeng District Municipality be linked to improved financial management?

DURATION: Each interview will take between 15 and 30 minutes and will be scheduled at a suitable time for the participants in February 2013.

PROCEDURES: A set of questions will be prepared for discussion.

POSSIBLE RISKS: No risks are anticipated as a result of the interview.

BENEFITS: The results of the survey and the eventual study will be made available to Sedibeng District Municipality.

VOLUNTARY PARTICIPATION: Participation is VOLUNTARY. The respondents will participate out of their own will.

CONFIDENTIALITY: The data gathered during the interviews will be reported in a confidential manner.

DISSEMINATION OF INFORMATION: Information will be utilized as part of the Masters Degree study and for future articles to be published in academic journals and presented at academic and other conferences.

CONTACT DETAILS OF RESEARCHER: N MEYER. Cell no 0823476611. E-mail: natanya.meyer@nwu.ac.za

PERMISSION FOR IDENTIFICATION FOR FOLLOW UP EVALUATIONS¹: If needed, although it is not expected, the researcher requests permission to have a follow-up meeting with relevant respondents.

This research project was approved by the North West University Ethics sub-committee for Social and Behavioural Sciences on _____.
The ethics approval number is: _____².

INFORMED CONSENT:

I (initials and surname of participant) have read and understand the nature of my participation in this research project and agree to participate.

Signature(respondent)_____ Date: _____

Researcher: _____

INFORMED CONSENT AND PERMISSION TO BE IDENTIFIED FOR FOLLOW UP EVALUATIONS:

I (initials and surname of participant) have read and understand the nature of my participation in this research project and agree to be identified and invited to participate in follow up evaluations.

Signature(respondent)_____ Date: _____

Researcher: _____

¹ Not applicable to all applications, please remove if not applicable.

² To be inserted once approval has been granted.

APPENDIX G
DATA GROUP 1

GROUP 1							
GENERAL RISK ANALYSIS							
Item	Frequency				Percentage		
	Yes	Unsure	No		Yes	Unsure	No
1.1	11	3	0	14	78.6	21.4	0
1.2	9	1	4	14	64.3	7.1	28.6
1.3	8	3	3	14	57.1	21.4	21.4
1.4	8	4	2	14	57.1	28.6	14.3
1.5	9	4	1	14	64.3	28.6	7.1
1.6	13	1	0	14	92.9	7.1	0
1.7	5	7	2	14	35.7	50.0	14.3
1.8	13	0	1	14	92.9	0.0	7.1
1.9	2	3	9	14	14.3	21.4	64.3
1.10	8	6	0	14	57.1	42.9	0
1.11	2	9	3	14	14.3	64.3	21.4
1.12	8	4	2	14	57.1	28.6	14.3
1.13	0	10	4	14	0.0	71.4	28.6
Average					52.7	30.2	17.0

RISK IDENTIFICATION							
Item	Frequency				Percentage		
	Yes	Unsure	No		Yes	Unsure	No
2.1	2	9	3	14	14.3	64.3	21.4
2.2	2	10	2	14	14.3	71.4	14.3
2.3	7	1	6	14	50.0	7.1	42.9
2.4	8	4	2	14	57.1	28.6	14.3
2.5	1	0	13	14	7.1	0.0	92.9
Average					28.6	34.3	37.1

RISK ASSESSMENT							
Item	Frequency				Percentage		
	Yes	Unsure	No		Yes	Unsure	No
3.1	3	9	2	14	21.4	64.3	3.1
3.2	6	7	1	14	42.9	50.0	3.2
3.3	1	6	7	14	7.1	42.9	3.3
Average					23.8	52.4	23.8

RISK RESPONSE							
	Frequency				Percentage		
Item	Yes	Unsure	No		Yes	Unsure	No
4.1	4	10	0	14	28.6	71.4	0.0
4.2	3	9	2	14	21.4	64.3	14.3
4.3.1	4	9	1	14	28.6	64.3	7.1
4.3.2	7	6	1	14	50.0	42.9	7.1
4.3.3	8	6	0	14	57.1	42.9	0.0
4.3.4	4	10	0	14	28.6	71.4	0.0
4.4	6	8	0	14	42.9	57.1	0.0
4.5.1	6	7	1	14	42.9	50.0	7.1
4.5.2	5	8	1	14	35.7	57.1	7.1
Average					37.3	57.9	4.8

COMMUNICATION AND REPORTING							
	Frequency				Percentage		
Item	Yes	Unsure	No		Yes	Unsure	No
5.1	5	7	2	14	35.7	50.0	14.3
5.2	6	5	3	14	42.9	35.7	21.4
Average					39.3	42.9	17.9

MONITORING							
	Frequency				Percentage		
Item	Yes	Unsure	No		Yes	Unsure	No
6.1	1	9	4	14	7.1	64.3	28.6
6.2.1	4	9	1	14	28.6	64.3	7.1
6.2.2	3	10	1	14	21.4	71.4	7.1
6.2.3	5	8	1	14	35.7	57.1	7.1
Average					23.2	64.3	12.5

APPENDIX H
DATA GROUP 2

GROUP 2							
GENERAL RISK ANALYSIS							
Item	Frequency				Percentage		
	Yes	Unsure	No		Yes	Unsure	No
1.1	6	0	5	11	1.1	54.5	0
1.2	7	0	4	11	1.2	63.6	0
1.3	11	0	0	11	1.3	100.0	0
1.4	1	1	9	11	1.4	9.1	9.1
1.5	7	2	2	11	1.5	63.6	18.2
1.6.1	3	1	7	11	1.6.1	27.3	9.1
1.6.2	7	1	3	11	1.6.2	63.6	9.1
1.6.3	6	3	2	11	1.6.3	54.5	27.3
1.6.4	7	2	2	11	1.6.4	63.6	18.2
1.6.5	8	1	2	11	1.6.5	72.7	9.1
1.6.6	4	2	5	11	1.6.6	36.4	18.2
1.6.7	7	2	2	11	1.6.7	63.6	18.2
Average					56.1	11.4	32.6

INTEGRATION OF RISK MANAGEMENT ACTIVITIES							
Item	Frequency				Percentage		
	Yes	Unsure	No		Yes	Unsure	No
2.1	6	2	3	11	2.1	54.5	18.2
2.2	6	1	4	11	2.2	54.5	9.1
2.3	10	1	0	11	2.3	90.9	9.1
2.4	7	0	4	11	2.4	63.6	0.0
2.5	4	1	6	11	2.5	36.4	9.1
2.6	4	0	7	11	2.6	36.4	0.0
2.7	2	0	9	11	2.7	18.2	0.0
2.8	6	0	5	11	2.8	54.5	0.0
Average					51.1	5.7	43.2

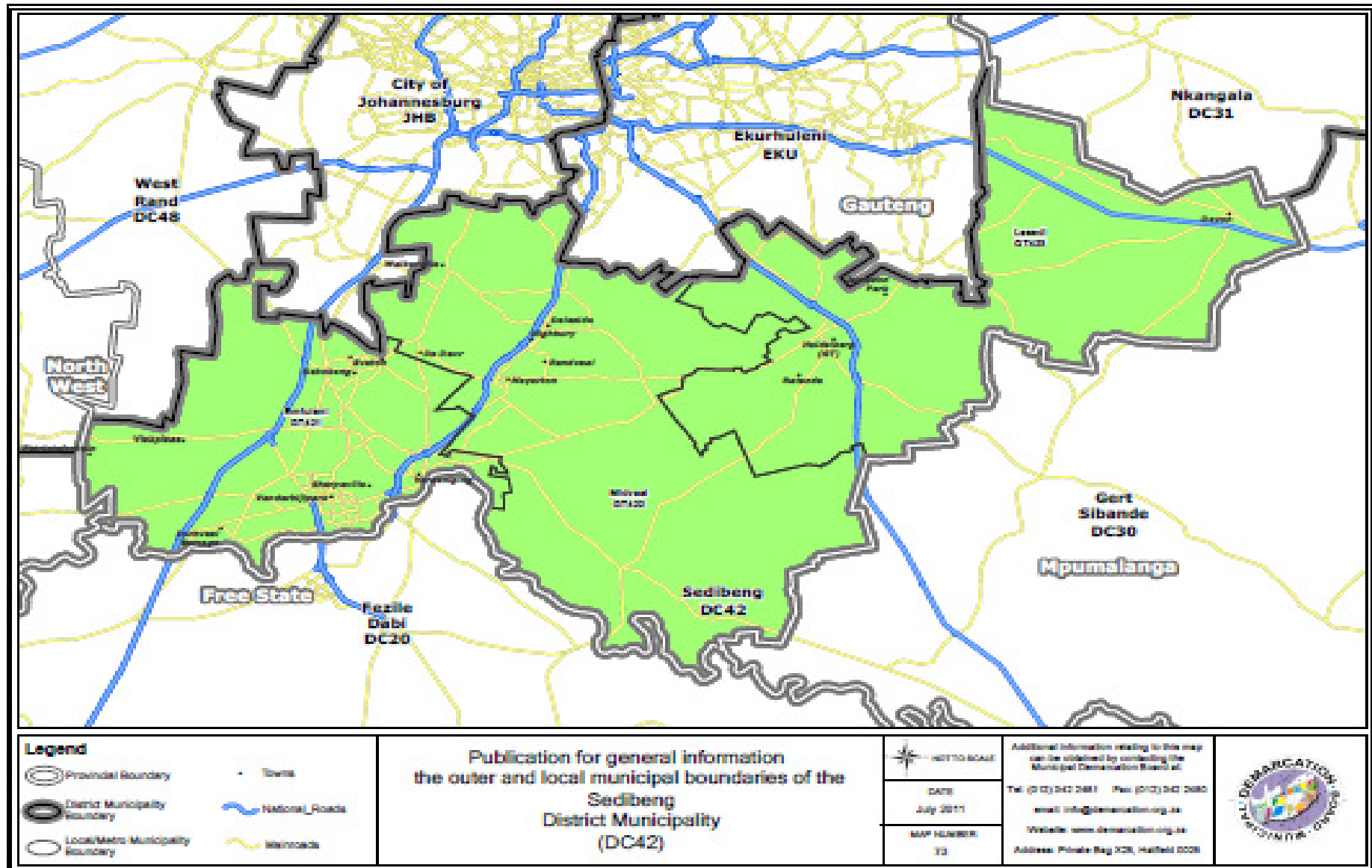
RISK IDENTIFICATION							
Item	Frequency				Percentage		
	Yes	Unsure	No		Yes	Unsure	No
3.1	8	0	3	11	3.1	72.7	0
3.2	6	0	5	11	3.2	54.5	0
3.3	10	0	1	11	3.3	90.9	0
3.4	6	0	5	11	3.4	54.5	0
3.5	2	0	9	11	3.5	18.2	0
3.6.1	8	0	3	11	3.6.1	72.7	0
3.6.2	10	0	1	11	3.6.2	90.9	0
3.6.3	10	0	1	11	3.6.3	90.9	0
3.6.4	9	0	2	11	3.6.4	81.8	0
Average					69.7	0.0	30.3

RISK ASSESSMENT							
	Frequency				Percentage		
Item	Yes	Unsure	No		Yes	Unsure	No
4.1	9	0	2	11	4.1	81.8	0
4.2	10	0	1	11	4.2	90.9	0
4.3	10	0	1	11	4.3	90.9	0
4.4	7	0	4	11	4.4	63.6	0
Average					81.8	0.0	18.2

RISK RESPONSE							
	Frequency				Percentage		
Item	Yes	Unsure	No		Yes	Unsure	No
5.1	8	1	2	11	5.1	72.7	9.1
5.2	6	1	4	11	5.2	54.5	9.1
5.3.1	11	0	0	11	5.3.1	100.0	0.0
5.3.2	11	0	0	11	5.3.2	100.0	0.0
5.3.3	11	0	0	11	5.3.3	100.0	0.0
5.3.4	10	0	1	11	5.3.4	90.9	0.0
5.4	7	1	3	11	5.4	63.6	9.1
5.5.1	10	0	1	11	5.5.1	90.9	0.0
5.5.2	10	0	1	11	5.5.2	90.9	0.0
5.5.3	11	0	0	11	5.5.3	100.0	0.0
Average					86.4	2.7	10.9

MONITORING							
	Frequency				Percentage		
Item	Yes	Unsure	No		Yes	Unsure	No
6.1	8	0	3	11	6.1	72.7	0.0
6.2.1	10	0	1	11	6.2.1	90.9	0.0
6.2.2	10	0	1	11	6.2.2	90.9	0.0
6.2.3	9	1	1	11	6.2.3	81.8	9.1
Average					84.1	1.7	10.6

APPENDIX I
MAP



APPENDIX J
RISK REGISTER

APPENDIX J

Risk No	Area of Risk	Risk Owner	Risk	Inherent Risk Status			Management Perceived Control Effectiveness		Residual Risk Status			Risk Treatment						
				Likelihood	Impact / Severity	Risk Level	Category	Factor	Likelihood	Impact / Severity	Risk Level	Risk Response	Treatment Implementation Actions	Implementation Date	Action Owner			
TREASURY																		
Supply Chain Management																		
SCM01	DEMAND MANAGEMENT	Director: SCM under the guidance of the Executive Director: Treasury	Lack of accurate, complete and valid vendor information	4	4	16	Satisfactory	65%	3	4	12	Reduce	By requesting suppliers to up-date their records, segregation of duties between SCM and Expe in the authorization of Banking Data	1-Jul-11	Assistant Management Manager Demand and Acquisition			
SCM02	ALL BID COMMITTEES	Director: SCM under the guidance of the Executive Director: Treasury	Ineffective Bid Committees	5	4	20	Satisfactory	65%	3	4	12	Reduce	Training of BSC & BEC Members	1-Jul-11	Director SCM			
SCM03	DEMAND MANAGEMENT	Director: SCM under the guidance of the Executive Director: Treasury	No or ineffective needs analysis undertaken	5	3	15	Weak	80%	4	3	12	Reduce	SCM to be part of budget panels meetings	2011-2012 budget process	Director- SCM			
SCM04	DEMAND MANAGEMENT	Director: SCM under the guidance of the Executive Director: Treasury	No or ineffective goods and service specifications	5	4	20	Satisfactory	65%	3	4	12	Reduce	Training of BSC members and user departments involve with BSC,	1-Jul-11	Director SCM and Assistant Management Manager Demand and Acquisition			
SCM05	DEMAND MANAGEMENT	Director: SCM under the guidance of the Executive Director: Treasury	Poor procurement planning	5	4	20	Weak	80%	4	4	16	Reduce	Development of procurement plan and its implementation.	1-Jul-11	Assistant Management Manager Demand and Acquisition			
SCM06	Contract Management and Logistics	Director: SCM under the guidance of the Executive Director: Treasury	No or ineffective contract management framework and process across the organisation	5	4	20	Satisfactory	65%	3	4	12	Reduce	All contract to be loaded on itenda, vendor performance to be manage through the contract management committee.	1-Jul-11	Assistant Management Manager Demand and Acquisition and Specialist Logistics			
SCM07	SCM admin/ Legal Dept	Director: SCM under the guidance of the Executive Director: Treasury	No or ineffective system of delegation	5	4	20	Good	40%	2	4	8	Reduce	Development of new delegation of authority with sub-delegations	1-Jul-11	Director SCM			
SCM08	Financial Mang	Director: SCM under the guidance of the Executive Director: Treasury	Petty cash utilised to circumvent procurement process	5	2	10	Good	40%	2	2	4	Accept	Report on all petty cash Trnsctions and reconciliation.	1-Jul-11	Assistant Management Manager Demand and Acquisition, Financial Management and specialist logistics			
SCM09	Contract Management and Logistics	Director: SCM under the guidance of the Executive Director: Treasury	Abuse or misuse of emergency procurement process	5	4	20	Good	40%	2	4	12	Reduce	Development of Procurement plan	2011-2012 financial year	Assistant Management Manager Demand and Acquisition and Specialist Demand Manag			
SCM10	Contract Management and Logistics	Director: SCM under the guidance of the Executive Director: Treasury	Sub-dividing of goods and services to circumvent procurement process	5	4	20	Satisfactory	65%	3	4	12	Reduce	Training to all staff including SCM logistics	1-Jul	Director SCM & Assistant Management Manager Demand and Acquisition			
SCM11	Acquisition MNG	Director: SCM under the guidance of the Executive Director: Treasury	Unauthorised and irregular expenditure	5	4	20	Good	40%	2	4	8	Reduce	Appointment of Ass Manager Performance as member of BSC	May-11	BSC Committee			
SCM12	SCM admin/ IT	Director: SCM under the guidance of the Executive Director: Treasury	Lack of an integrated supply chain management information management system.	5	4	20	Good	40%	2	4	8	Reduce	Interface between the two system must be manage properly.	1-Jul	Director SCM			
SCM13	Acquisition MNG	Director: SCM under the guidance of the Executive Director: Treasury	Non-compliance to procurement legislative framework.	5	4	20	Good	40%	2	4	8	Reduce	Training and Reporting all non-compliance to the AQ	1-Jul	Director SCM			
SCM14	Acquisition MNG	Director: SCM under the guidance of the Executive Director: Treasury	Under or over expenditure on capital projects.	5	4	20	Good	40%	2	4	8	Reduce	capture all tenders on itenda system and total elimination of sundry payments on contracts.	1-Jul	SCM Specialist Acquisition			

APPENDIX J

SCM15	CDO	Director: SCM under the guidance of the Executive Director: Treasury	Fraud, theft and corruption within procurement cycle.	5	4	20	Satisfactory	65%	3	4	12	Reduce	Develop anti-corruption strategy	1-Jul	CDO
SCM16	Contract Management and Logistics	Director: SCM under the guidance of the Executive Director: Treasury	Payment for goods and services not within specifications and quality standards	5	4	20	Satisfactory	65%	3	4	12	Reduce	Training of Project Managers who are currently performing this role on the use Intenda	1-Jul	Director SCM
SCM17	Contract Management and Logistics	Director: SCM under the guidance of the Executive Director: Treasury	Quotations manipulation during the procurement process	5	4	20	Satisfactory	165%	8	4	13	Reduce	Follow-up on all supplier on PRQ, requesting reasons for not quoting. Analyze the response. New Module of Intenda.	1-Jul	Assistant Management Manager Demand and Acquisition & Specialist Demand
SCM18	DEMAND MANAGEMENT	Director: SCM under the guidance of the Executive Director: Treasury	Over Charge on Goods and Services by Suppliers	5	4	20	Satisfactory	265%	13	4	14	Reduce	Commodity analysis on Tenders and Formal written Quote. Price analysis to all current contracts to ensure value for money	1-Jul	Assistant Management Manager Demand and Acquisition and Specialist Demand Manag
SCM19	Logistics Management	Director: SCM under the guidance of the Executive Director: Treasury	Payment for goods and services not within specifications and quality standards	5	4	20	Satisfactory	365%	18	4	15	Reduce	Training of Project Managers who are currently performing this role on the use Intenda	1-Jul	Director SCM
<p>Lack of knowledge(CIDB, Financial Systems) Assets Disposals Stock Loss</p>															