

FINANCE POLICIES AND PROCEDURES

RISK MANAGEMENT FRAMEWORK

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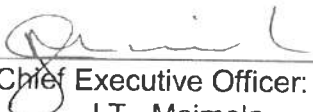
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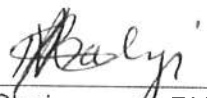
Approval

The signatories hereof, being duly authorized thereto, by their signatures hereto authorize the execution of the work detailed herein, or confirm their acceptance of the contents thereof and authorize the implementation/adoption thereof, as the case may be, for and on behalf of the parties represented by them.



Chief Executive Officer: PHA
J.T. Maimela

25 AUGUST 2013
Date



Board Chairperson: PHA
MRS N.A. Baloyi

25 AUGUST 2013
Date

**Statement by the Chairperson
Of the Board of PHA**

In an increasingly complex public environment, it is important that PHA Employees are encouraged to approach their work with creativity and a desire to innovate. At the same time, however, we must recognize and respect the need to be prudent in protecting the public interest and maintaining public trust. Achieving this balance is what this *Risk Management Framework* is all about.

The Board of Directors have the ultimate responsibility in the management of Risk, the MFMA as well as other Corporate Governance codes such as King 3 provides rules on risk management and implementation of controls. It is however important that we own this process and ensure that PHA adhere to the highest standards of Corporate Governance.

Whilst compliance with legislation is important, it should not be the only driver for the management of certain risks. We should view risk management in a positive light and integrate it into our decision making and operations to ensure that we achieve our organizational objectives, exploit opportunities and minimise threats.

The implementation of a Risk Management Framework will help PHA to think more strategically and improve their ability to set common priorities. Every individual within PHA has a role to play in managing risk and thus I see the implementation of this framework assisting employees to develop new skills and strengthen their ability to anticipate, assess and manage risk. The ultimate goal is to raise risk awareness amongst our management and employees in order to minimise loss in every aspect, which may affect PHA, and the stakeholders PHA wishes to serve.

I therefore invite you to read the framework and make use of the concepts, guidelines and examples that relate to your particular needs. I am confident that this framework will lead to the adoption of a more holistic approach to risk management and foster a working environment, which supports employees in pursuing new and innovative ways to better serve our tenants.

Signed.....
Board Chairperson

Foreword by the Chief Executive Officer

An effective and systematic risk management process is a vital component for all organisations, especially those as complex and diverse as ours. It is a process that underpins and supports the efficient and effective delivery of all PHA Services on a day-to-day basis.

This framework is produced to help in raising awareness of the overarching principles of risk management and to assist managers throughout the PHA, at all levels, in applying sound risk management principles and practices within the Municipality. It is only when this is achieved consistently across the PHA's various areas of responsibility and activity can it be deemed that risk management is truly embedded.

Risk management is about taking informed decisions; achieving objectives and delivering results once those decisions are made. By being more risk aware, the PHA will be better placed to avoid threats and take advantage of opportunities. In order to achieve this, the risk management process will be integrated into the performance management system currently in place.

PHA is committed to the principle of operating within an effective and systematic risk management framework and this can only succeed with your support.

Signed.....
Chief Executive Officer

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SECTION 1

Introduction

In order for risk to be recognised correctly it must be viewed by organisations in general as a positive aspect of its business culture.

Managers must embrace risk and, in doing so, actively consider it in undertaking and performing their day-to-day duties and responsibilities.

This positive „risk aware“ stance will assist in delivering an objective, informed and robust management decision-making process. Risk arises as much from failing to capture business opportunities when pursuing strategic and operational objectives as it does from a threat that something bad will happen.

Therefore risk is the threat that an event or action generated internally or externally, will either have a positive or adverse effect on the PHA's ability to achieve its business objectives and execute its strategies successfully. This definition clearly illustrates that an effective risk management process, integrated into PHA's policies and procedures, can bring numerous benefits to the performance of PHA.

Effective risk management processes therefore provide PHA with a means of;

- i. Improving strategic, operational and financial management
- ii. Securing robust operational and service performance
- iii. Maximising opportunities and minimising loss events which might result in financial losses, service disruption, bad publicity, threats to human health and safety or claims for compensation.

As such, a „risk aware“ culture that is fully embedded within PHA's decision making processes provides an enhanced and informed operational and strategic focus to assist it to achieve its stated objectives and priorities.

SECTION 2

The Purpose of the PHA's Risk Management Framework

The overall objective of the Risk Management Framework in PHA is to ensure an integrated and effective risk management, where all risks are identified, quantified and managed in order to achieve an optimal risk profile.

This framework is primarily developed to raise awareness, inform and guide Managers and Executives at PHA on PHA's approved approach to risk management.

This document is useful in communicating PHA's approved structure, framework and procedures for risk management. Its main aim though is to provide a practical framework to assist managers in the effective identification, evaluation and control of risk that may impact upon the achievement of the corporate service objectives and priorities that we have all set ourselves. In this way risk management is intrinsically linked to the organisations „positive aspirations and achievements“ rather than solely focused on „negative factors“. Staff should therefore view risk management across the organisation as a tool to support achievement rather than simply another compliance procedure.

"If risk management is to be effective there must be a clear link between objectives and risks. It is, therefore, essential that risk management is embedded in the planning process."

Therefore PHA's Risk Management Framework aims to achieve these important links. How it does this is best illustrated by the following diagram.



Whilst it is recognised that many managers will have already been managing risk on a daily basis, more often than not this would have been on an intuitive and instinctive basis. Unfortunately this approach often fails to identify all of the risks involved with a particular project or service area and does not provide a systematic process to monitor potential exposure. Therefore this framework is developed to provide the formal framework to ensure that the process of risk identification and mitigation is as consistent and comprehensive as possible at PHA.

A clear overarching principle of this framework is to develop the risk management processes and procedures alongside existing corporate arrangements. This has the clear advantage of achieving and demonstrating an embedded risk management process, but also reduces the need for additional reporting mechanisms.

To place the importance of risk management in context, studies have shown that only about 20-25% of an organisation's total risk profile is insurable risk. It therefore follows that around 80% of the risks cannot simply be transferred to an insurance company. Furthermore an organisation that can demonstrate a clear and committed approach to the systematic assessment and control of risk are better placed to both secure appropriate levels of insurance cover, where it is actually available, and significantly reduce the cost of this cover.

This framework therefore seeks to develop a shared and consistent corporate approach that identifies and systematically manages risks at PHA and thereby reduces the potential exposure to these risks.

SECTION 3

The Role of Risk Management in Corporate Governance

In terms of the Public Audit Act, Number 25 of 2004, the Auditor-General is the Supreme Audit Institution (SAI) of South Africa, responsible for the auditing of the financial statements of national government, provincial government and local government, and selected public entities. Within this mandate, the Auditor-General will be requested to review and comment on the risk management practices within PHA.

This framework therefore aims to assist PHA in ensuring that the requirements of the Act are met through the application of effective risk management that is integrated with Internal Audit for the purposes of effective financial reporting and management of risk.

SECTION 4

Risk Management Policy - Aims & Objectives

Risk Management is a discipline that cuts across all of PHA's activities. It is a process that aims to both raise awareness and protect PHA against potential risks and the consequences of these risks occurring.

The risk management framework and its supporting procedures will provide for an appropriate level of monitoring and evaluation across a broad range of activities. It therefore considers strategic issues, as well as the component elements that support operational delivery.

A number of objectives have been agreed to ensure that a robust and sound risk management framework exists and, more importantly, actually operates to inform PHA's service planning and service delivery processes.

The Policy Statement is reviewed and updated annually by the Risk Management Committee to ensure that it adequately considers and captures the latest best practice and then formally establishes PHA's risk management principles, and any major changes will be approved by the Board.

Risk Management Policy – Application

The PHA key mandate relate to the development and management of Social Housing Rental Stock.

Risk Management is an integral part of achieving these objectives

PHA's Risk Management Policy Statement

PHA as represented by the Board, management team jointly champion and have the responsibility for implementing a Risk Management Framework at PHA and will implement best practice to:

embed risk management in its corporate business processes, including:

- Strategic planning
- Financial planning
- Policy making and review
- Performance management

PHA considers positive risks (opportunities) as well as negative risks (threats)

PHA's Risk Management Principles

- Integrate and embed risk management into the culture of PHA as part of normal business management processes
- Measure, manage and communicate risk in accordance with best practice
- Anticipate and respond to changing social, environmental and legislative requirements and

- ensure that statutory obligations and policy objectives are met
- Prevent injury, damage and losses to employees, visitors, infrastructure, assets of PHA through continuous monitoring and mitigation of risk
- Manage and reduce the cost of risk within the PHA
- Raise awareness of the need for sound risk management principles and practices by all those connected with the delivery of PHA's services
- Maintain effective and efficient control, management and stewardship of public funds and assets
- Preserve and promote the reputation of PHA for the benefit of the communities it serves

PHA's Risk Management Objectives

In order to meet the requirements of the policy statement, the following objectives are required:

- Establishing an appropriate framework which addresses risk infrastructure, maintains a process of systematic identification and assessment of the risks that threaten the achievement of PHA's objectives, ensures integration at PHA and embeds a culture of Risk Management
- Ensuring risk management accountability by the establishment of key functional criteria at managerial levels
- Establishing clear roles, responsibilities and reporting lines for PHA's risk management activities through management performance contracts and independently assessed KPI's.
- Linking and embedding risk management with other complimentary policies, strategies, procedures and processes that govern the work at PHA, including all projects and activities undertaken by PHA.
- Reinforcing the importance of effective risk management practices in the day to day provision of PHA's services to personnel involved in the delivery of these
- Providing opportunities for shared learning on risk management at PHA
- Offering a framework for allocating resources to identified priority risk areas
- Identifying and evaluating potential risk exposure on an on-going basis, including a risk assessment of new areas of activity for PHA
- Regular monitoring and formal reporting by departmental executive directors on the effectiveness of counter-measures designed and implemented to manage risks
- Quarterly meetings of the Risk Management Committee to review, develop and co-ordinate activity to ensure a systematic approach to the management of PHA's risks
- Assessment, definition and measurement of PHA's risk appetite and tolerance in the strategic and operational context
- Ensuring that Risk Management is sustained and embedded in the context of organisational change (people, processes and strategies)

PHA recognises the breadth and complexity of the services that it delivers. Therefore, in order to assist in the consistent application of risk management principles at PHA, further information and practical guidance documents have been produced.

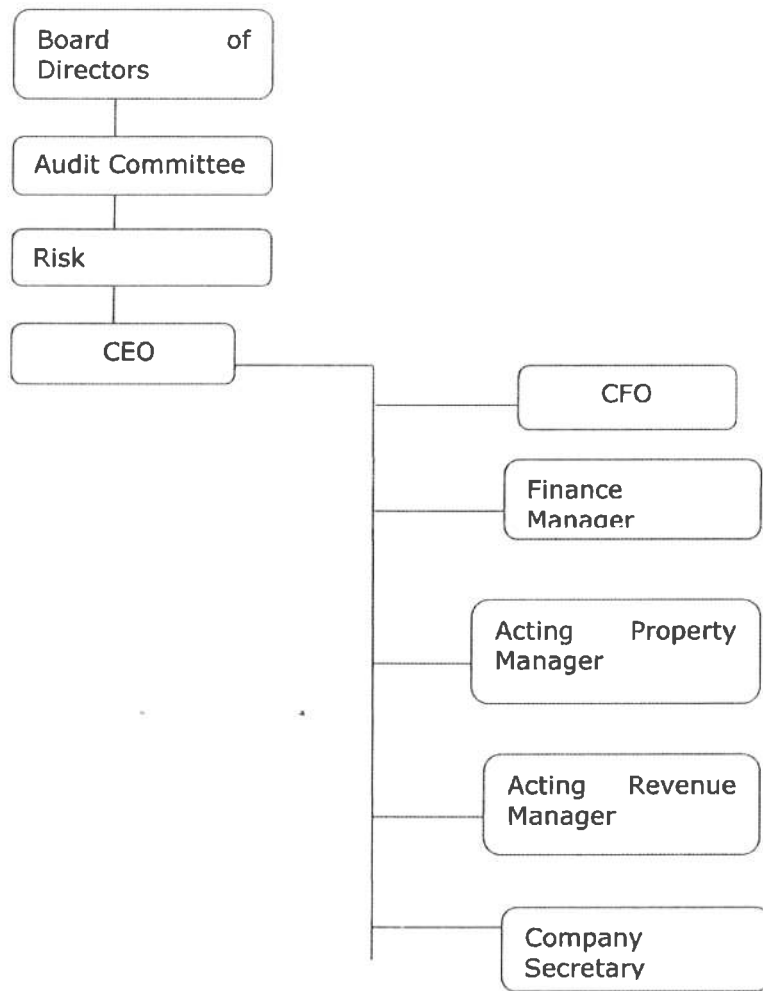
SECTION 5

Roles & Responsibilities

Risk management will only be considered to be truly embedded when it functions as part of PHA's day to day operations. In order for this to be achieved it is vital that clarity exists to determine the various roles and responsibilities of individuals involved at PHA in the risk management process.

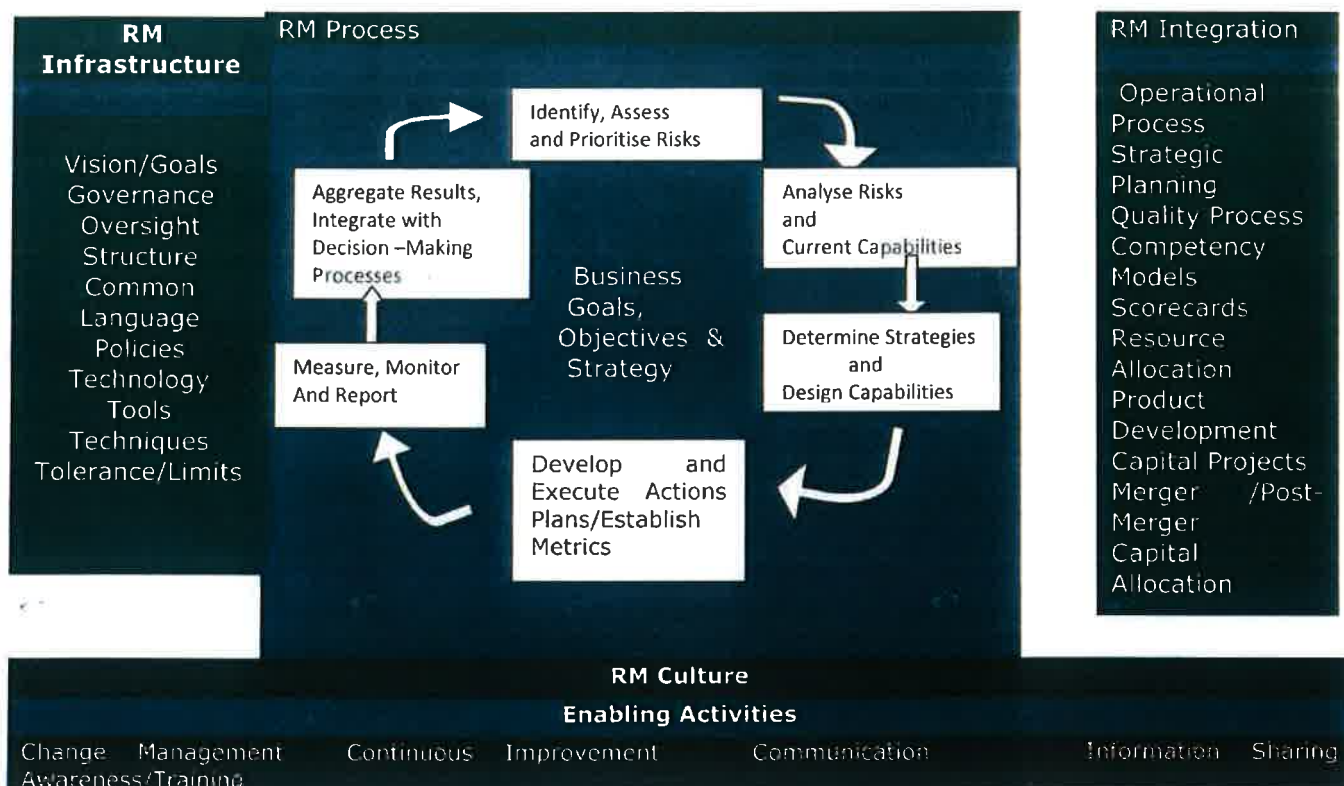
To ensure that this level of clarity exists, a clear best practice structure has been established that depicts how Managers and the various Committees, Groups and Teams contribute to the overall risk management process.

PHA's Risk Management Infrastructure



TRAINING

To ensure that the various „Roles and Responsibilities“ specified within PHA's Risk Management framework can be carried out effectively, it is important to ensure that the individual managers and members and groups and committees involved are equipped with the necessary skills, knowledge and expertise. PHA will therefore encourage risk management training designed to achieve this.



The risk management infrastructure has been described in the previous six sections, the following section deals with the process and integration of risk management and through training and embedding risk management, and the culture is developed.

To reiterate, risk management is not about the avoidance of risk, but about understanding the risks and opportunities facing PHA. In accepting this principle it will ensure that managers make well-informed decisions that will support the achievement of the organisation's stated aims and objectives. Therefore, it is important to understand the full scope of risks relating to PHA's activities.

In order to assist PHA to understand the scope and nature of potential risks facing the organisation the following description is presented:

External Risks
These risks are external to PHA has very little control over the occurrence ,but may have control over the outcomes of the risk .Risks include regulatory impacts ,economic conditions ,natural hazards. e.t.c

Internal Risks

on
ss

Strategic

Operationa
l

Regulatory

Financial risks are inherent to all organizations .These risks include issues surrounding funding resources, cash flow, currency , counterparty risks e.t.c and how the financial department manages these risks

Requirements associated with PHA within South Africa

Process

Process risk surrounding the transactional day to day activities that PHA expensive Failure of a routine control or process interruption could result in significant customer implications financial loss or legal implications .Risks include efficiency constrains ,relationship management ,contract commitment

Management Information

Management Decisions are made based on information Poor or incorrect information Could have far reaching legal and financial implications

Integrity

Employees or management fraud, illegal acts, conflicts of interests e.t.c all create a negative public image and have a financial impact

Human Capital

Employees of PHA are considered the most valuable asset could result in high turnover and loss of key skills

Technology

The reliance on technology especially IT create new risks with PHA needs to consider

These categories should be helpful in providing some assistance and guidance to managers in the identification and evaluation of risks relevant to their areas of responsibility.

SECTION 8

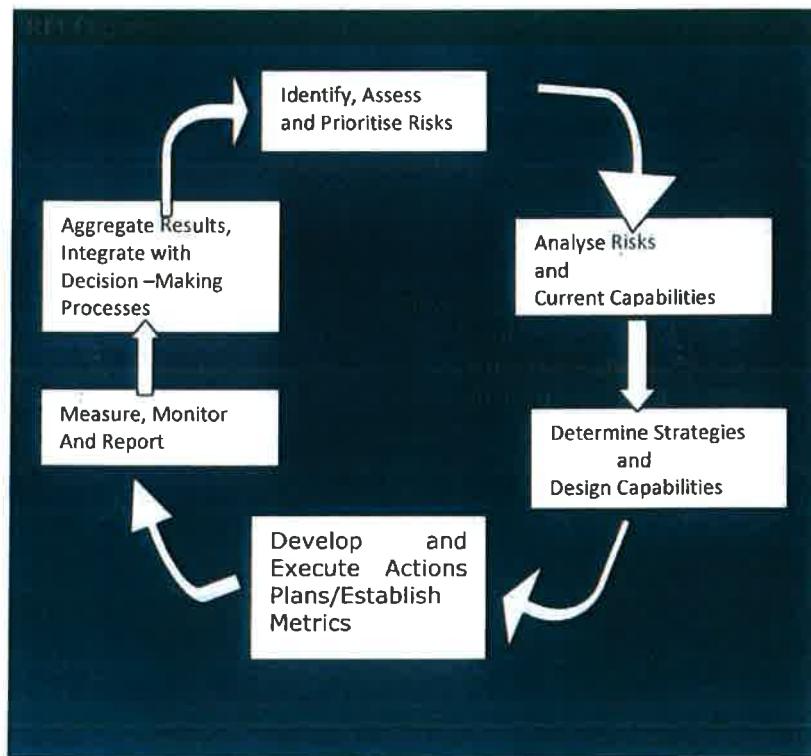
Implementing Risk Management

The Risk Management Process

In order for risk management process to be effective and consistent it is vital that it is clearly communicated throughout the organisation. Stakeholders must have a clear understanding of their role(s) (See Section 5) and the approved methodologies that have been adopted by PHA that will be required to be applied and followed.

As seen in the diagram below, risk management is a cyclic process which requires regular and systematic evaluation to deliver a sound decision making process. This, in turn, leads to the achievement of high quality services delivered on a value for money basis.

The Risk Management Process



8.1 Risk Identification, Assessment and Prioritisations

Risk Identification

It is vital to ensure that informed decisions are made about policy or service improvements. Informed decisions can only be made if the risks involved in the delivery or improvement of services are properly identified.

There are a number of techniques that can be used for risk identification. PHA has identified the following options that can be used to assist managers in the identification and recording of its perceived risks;

Technique	Pros	Cons
Individual Interview	Ensures consistent drawing out of issues. Personal interaction can be useful in generating a better understanding of risks.	Takes up a considerable amount of time for both interviewer and interviewee. May miss significant risks unless a well-qualified interviewer is used.
Workshops	Generates a shared understanding and "ownership". Promotes team working through a process of brainstorming.	Team dynamics may take over (e.g. risks not identified because the "boss" is present which inhibits discussion). Negativity amongst the team affects risk ranking.
A combination of the Above	Risks from interviews can be discussed and agreed. New risks can be brought out in a team environment.	Takes up officer time and largely depends upon the skills of the interviewer/ facilitator.
Staff Surveys	Consistent questions asked and documented responses. Can identify risks, evaluate them and capture action plans.	Could be a better use of resources or be seen as bureaucratic and generate little "buy-in" from teams. Can be some collation/analysis issues when results received.
Selected Groupings	If senior managers are involved they should quickly identify key strategic risks and the process can help to generate corporate working.	Fairly cost effective but the opinion of those "already converted" or risk educated may be sought which may not adequately capture or address a holistic approach.

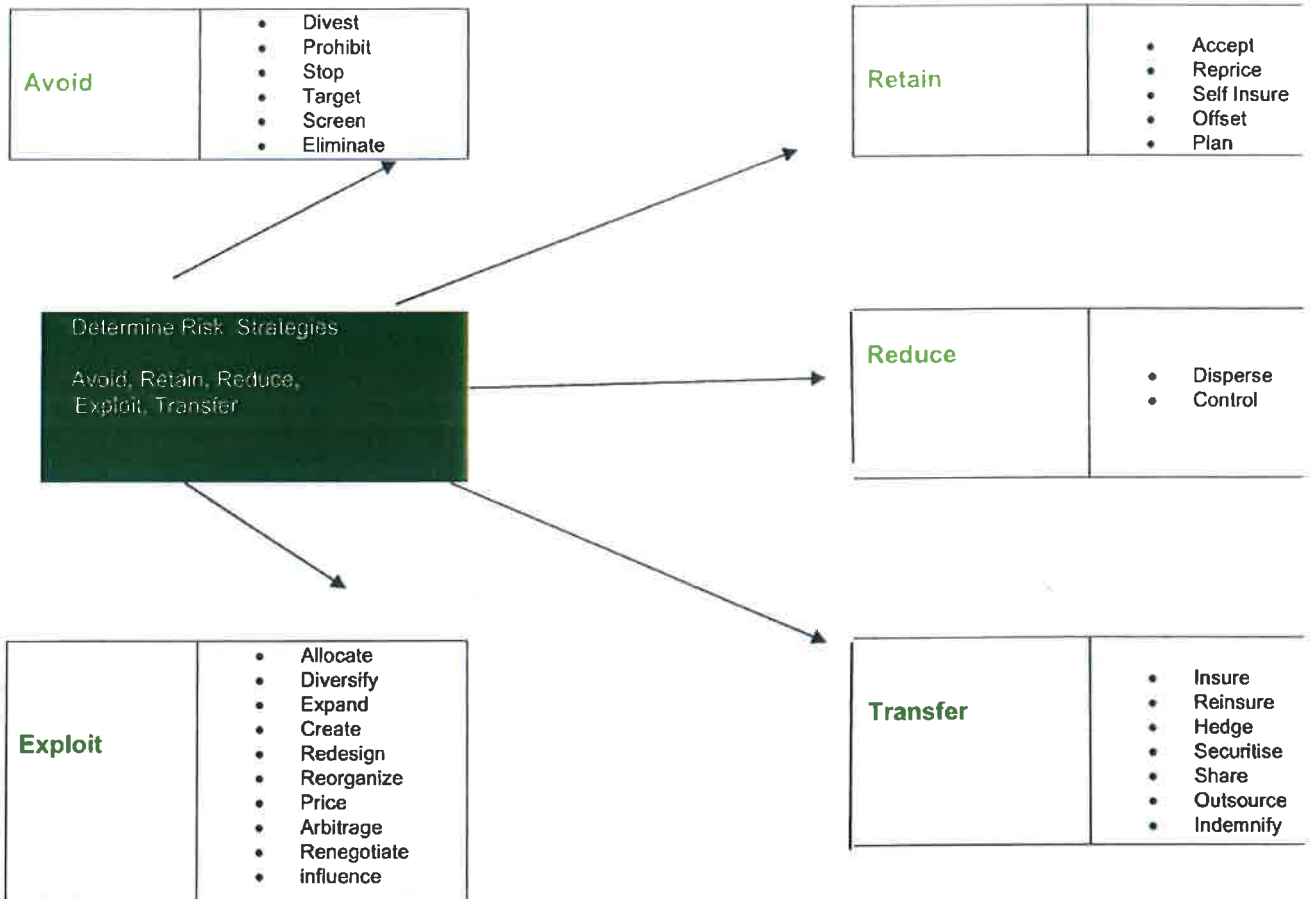
The various techniques outlined above are generally undertaken as part of PHA's pre-planned formal risk identification process. The output from these exercises needs to feed into PHA's risk register.

The following Enterprise Risk primary factors, the associated cause categories and related incident/event categories, have been incorporated into the technology solution selected by the Risk Services. All risks identified will be allocated to these factors:-

People Risk

- The inability to recruit, train and retain the correct mix of skilled staff, unauthorised staff activities and misdeeds.

Process Risk



(NB: - Where the „Transfer“ option is to be considered the issue of risk needs to be carefully considered, as it is often the case that some risk can be transferred whilst major risks such as responsibility for delivery of the service and the reputational risk remains with PHA. It is therefore appropriate for managers to seek legal advice from a legal advisor or Risk Services.)

These stages are also sometimes referred to as the **4 T's**;

- i) Treated
- ii) Tolerated
- iii) Transferred
- iv) Terminated

Whilst actively reviewing the various options that are available to deal with the identified risk(s), early consideration must be given to the cost/benefit of implementing the identified solution(s). To implement a solution which brings with it an unacceptable level of cost that outweighs the benefits of attempting to mitigate it is unlikely to be accepted.

Any analysis of how risk is being mitigated within PHA should, as a minimum, include;

- Consideration of existing systems of internal control
- The extent to which insurance or other third party contract are used to transfer risks
- The use made of business continuity and contingency plans for recovery from incidents.

8.4 Developing Action Planning for Risks

To ensure that PHA commits its resources to achieve the highest benefit from action planning, this action planning process must commence with those risks that are considered to represent the highest priority risks to the achievement of PHA's objectives and priorities.

Adherence to this Action Planning Process will provide PHA with informed risk awareness and will ultimately lead to an improvement in PHA's risk exposure. It will also ensure that PHA operates within an informed, formalised, consistent and co-ordinated risk management process.

8.5 Risk Monitoring - Tracking & Reporting upon Risk

PHA's physical risk management reporting processes operate on a varied but structured basis. PHA's governance arrangements are designed to ensure that various Managers and the risk management committee that is tasked with such responsibility receive regular reports about PHA's identified risk exposure.