

# Transforming ERM Maturity in Municipalities



**By Ronald Moyo**  
Independent Advisory Expert



# Why Enterprise Risk Management?

- Essentially, our Constitution (section 216) calls for Good governance on managing state-owned organization, secure high performance organizational culture, instil discipline to executing policies, strategies and the way the organisation deals with its stakeholders.
- MFMA prescribe measures to ensure both transparency and expenditure control in all spheres of local government by introducing uniform treasury norms and standards.

## **The Auditor-General has alluded to:**

- Deficiencies stemming from a lack of knowledge or disregard of legislation and processes by councillors and officials;
- Failure to appoint suitably qualified key individuals to specifically legislated tasks; and
- Inability or disregard by municipalities to establish and maintain the appropriate governance, risks and internal control systems which provide the basis of the effective governance framework.

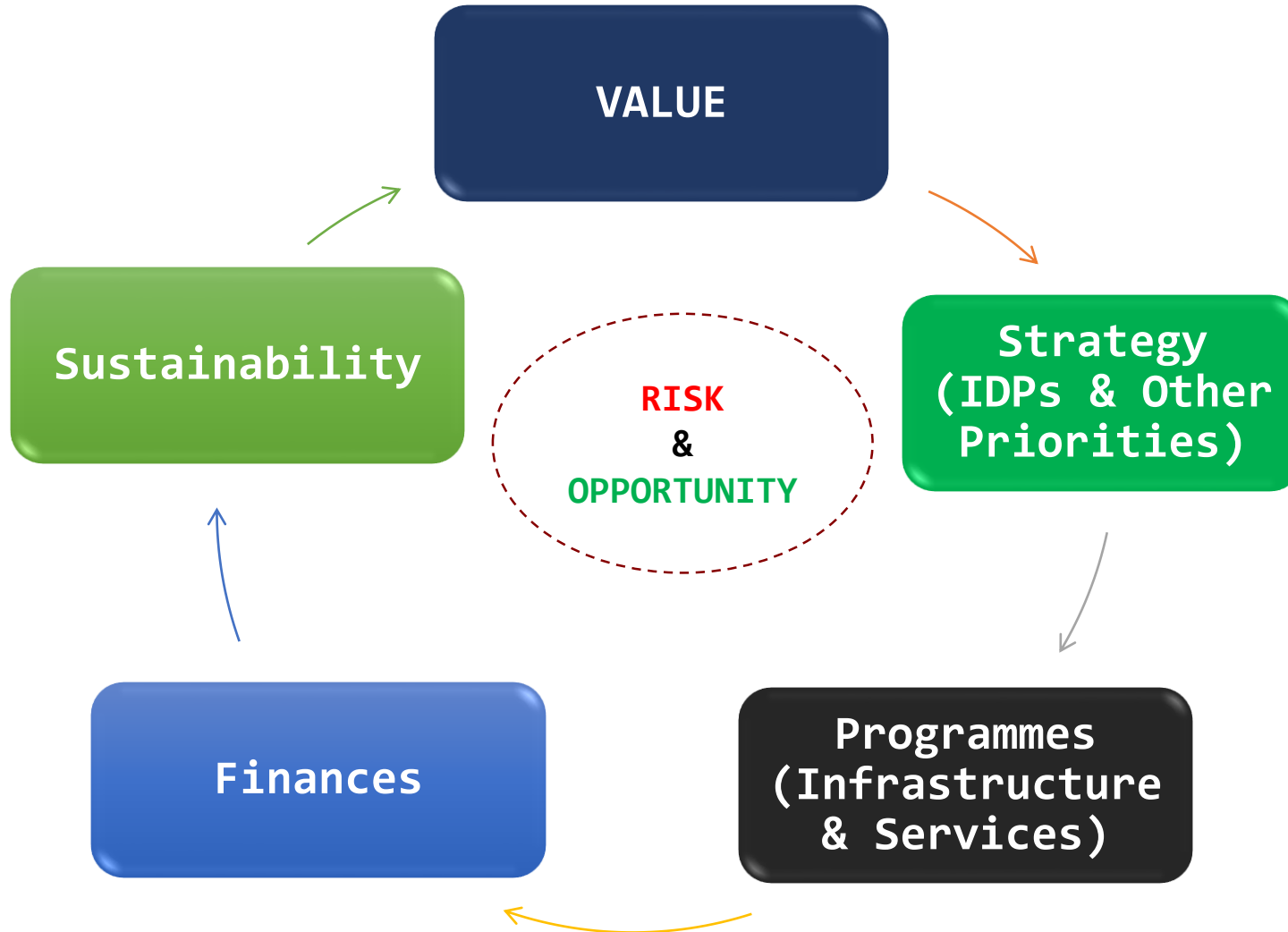


## Enterprise Risk Management Entails...

- The central role of risk management is to **preserve and create value** through the implementation of appropriate governance, policies and procedures;
- Creates risk thresholds and risk appetite a municipal entity can set in its service delivery to the communities;
- Managing risk more successfully can enable the municipal entity to:
  - achieve its strategic annual performance goals re planned infrastructure and service delivery targets;
  - enhance revenue billing and collection to alleviate fiscal strain;
  - curb fruitless, wasteful and irregular expenditure; and
  - gain stakeholder support and confidence;



# What is Value – Municipality perspective

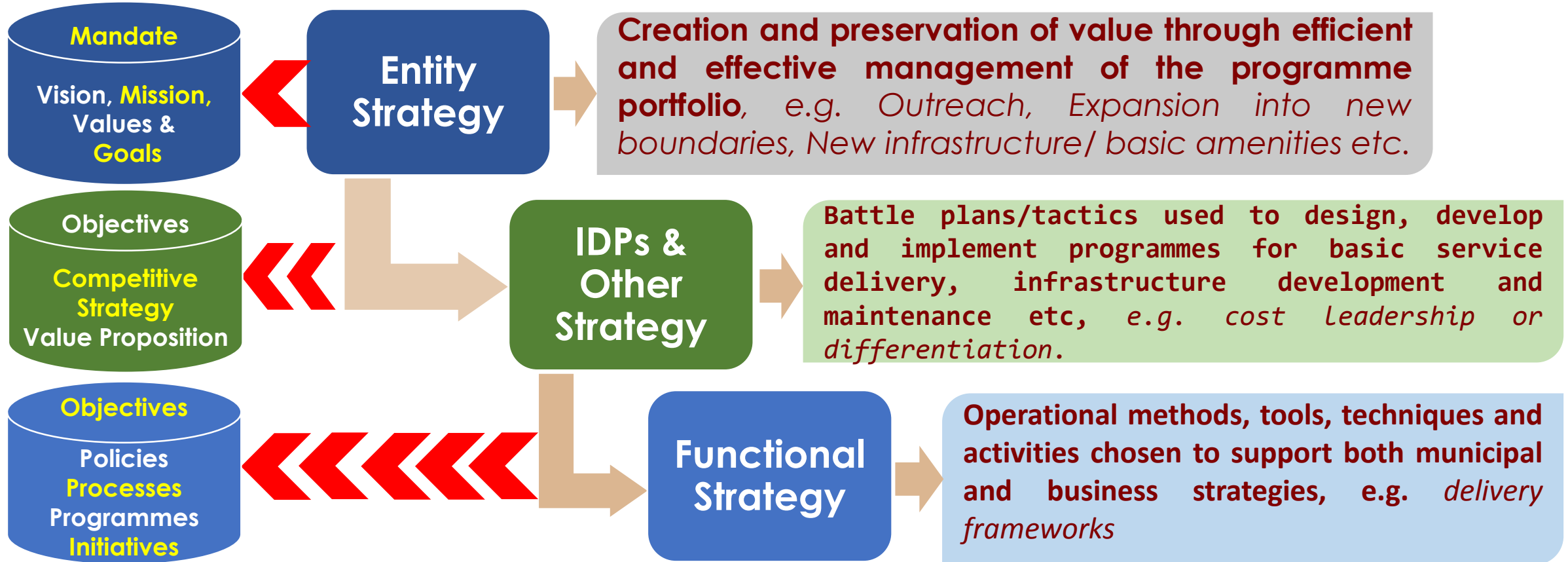


## Core elements of value creation:

- Sustainable service delivery;
- Achievement of all service delivery or infrastructure development targets;
- Reduced Corruption and fraud;
- Reduced Litigation; and
- Eliminate Wastage of taxpayers' money;
- Healthy credit rating for bonds/stocks



# Value delivery systems - Municipality perspective

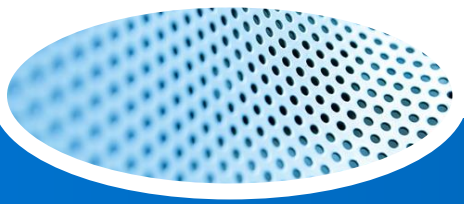






## Municipal systems of accountability and governance

- Executive Council;
- Executive Mayoral Committee (MFMA, Municipal Systems Act);
- Portfolio committees
- Municipal Executive Management (MFMA Sec 62 & 95, Municipal Systems Act);
- Internal audit (MFMA sections 165 & Circular 65);
- Audit committees (MFMA sections 166 & Circular 65);



# Creating an ERM enabling environment

- **Authority & Mandate** – a clear mandate and authority that enables the ERM execution in line with the professional IRMSA standards provides the key stakeholders with the assurance that they receive consistent, reliable results from ERM function and that the function add value;
- **Governance Processes & Support** - Supreme governance structures such as the Council, Mayoral Committee, Audit, Risk and Governance Committees remain collectively accountable for establishing an effective management of governance, risk and control environment. An ERM function with full support of these structures is more capable of delivering remarkable benefits to the entity. Robust delivery methodologies, quality control and enforcement processes significantly safeguards a rewarding ERM value chain;
- **People Capital** – the skills, expertise and visionary traits, and ongoing professional development of the human capital within the entity remains the key driver of ERM value add. ERM function must display unconstrained desire to continuously upskill its workforce into specialism discipline that is akin to the entity's strategic direction;
- **Continuous Learning** – due to a very volatile nature of any business risk environment, ERM must forever explore and search for optimal ways to align with the needs of their entity, display huge appetite to refocus their efforts into key business risk challenges and aspire to be the leaders in leveraging on lessons learnt so as to deliver tremendous value.



# Enterprise Risk Management Landscape

## Risk Governance & Strategy

- ERM strategy (including ERM Objectives, KPAs, KRIs and KPMs)
- Risk appetite and tolerance limits and capacity
- Risk maturity target
- ERM oversight structures
- ERM framework, policy and procedures
- Long-term (3 or 5 year) plan
- Annual implementation plan

## Risk Implementation

- Risk assessment workshops
- Compilation of the risk register
- Risk maturity assessment
- Control framework
- Combined assurance activities
- Risk champions forum
- Risk awareness and training

## Risk Monitoring

- Monitoring of mitigation plan implementation
- Identification of emerging risks
- Determination of risk movements, near-miss events and loss events
- Assessment of performance of ERM activities by senior Municipal management, the Mayoral Committee (MayCo) and its committees

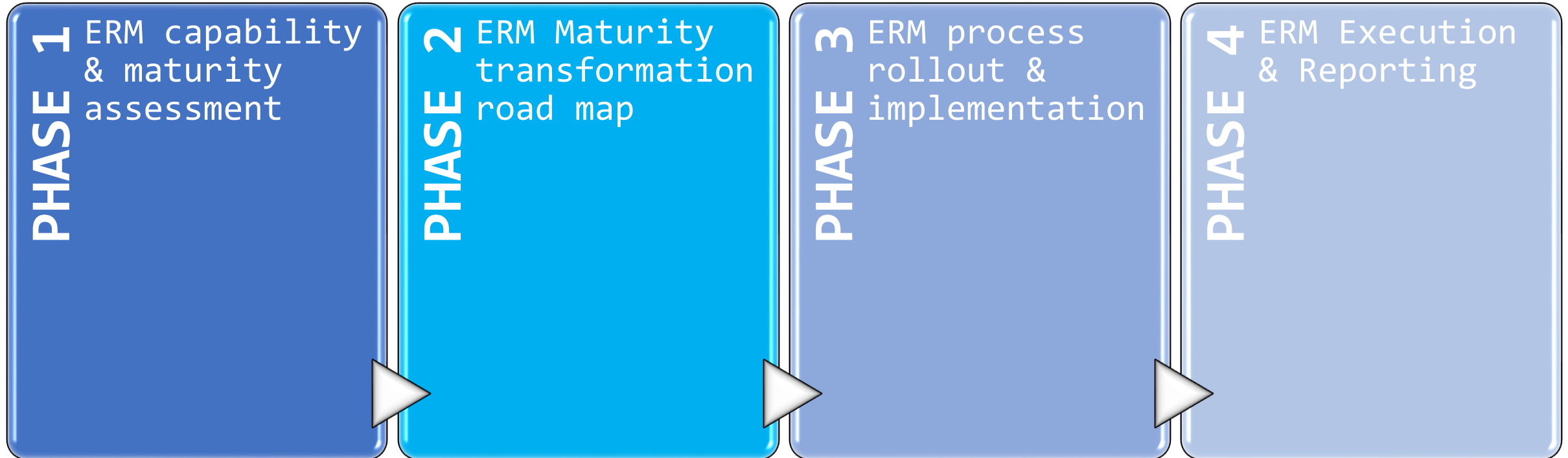
## Risk Reporting

- Reporting to internal risk management structures such as the Operational Risk Committee, Risk Champions Forum and MayCo
- Reporting to the Audit & risk management committee
- Inclusion of the risk management report in the annual integrated report





# Revolutionising ERM Process



The fact is that different organisations are at different risk management maturity levels at any given point;



# Leading ERM Frameworks

A blended approach between the two frameworks is highly recommended including National Treasury guidelines

## COSO Framework

- Focused on ERM
- Substantially similar Principles, framework and process
- Considers only the negative risks
- Addresses Risk that already exists
- More sequential process

## ISO 31000 Framework

- General approach to risk management
- Substantially similar Principles, framework and process
- Considers both positive or negative risks
- Addresses both existing and emerging risks
- More iterative process

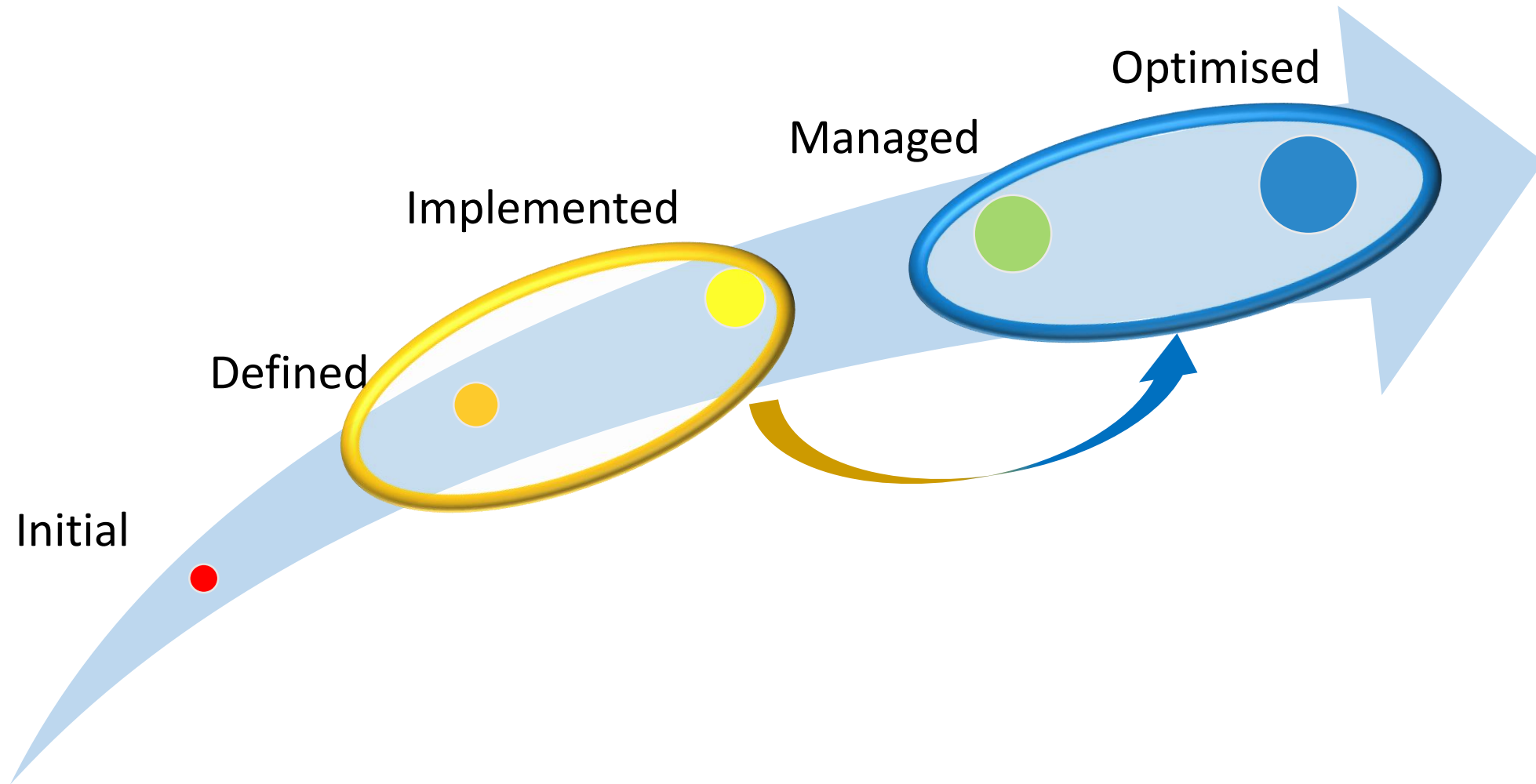


## Conducting a Maturity Assessment for ERM Function

- Functional maturity assessment helps the municipality reposition its ERM to properly direct greater focus on ensuring that mission-critical areas are assessed and increased ability to enhance mitigate risk, be it operational, regulatory, financial or strategic;
- Repositions the ERM to clearly define and embed a robust risk management strategy and ERM standards within the municipality as well as the current and future strategic position of the function;
- It provides a basis and a comprehensive framework for continuous improvement in ERM strategic contribution;



# Maturity of the ERM Environment





# ERM Maturity Assessment Model



**ERM Governance** - is the key enabler to all other components as it sets the tone at the top, the vision, mission and the culture of entire ERM Environment;

**People** - is the key value add pillar that brings to live, the mission, vision & culture;

**Methods & Practices** - forms the basis for policies, procedures, methodology, tools and practices used in executing the ERM mandate;

**Communication & Reporting** - a fundamental pillar that brings the value created by the ERM for the benefits of all municipal stakeholders; and

**Information & Systems** - the fundamental pillar that drives the quantity and quality of data, information and systems on which ERM leverage for delivering its mandate.



# Key Maturity Assessment Attributes

## Governance Philosophy

<b>Tone at the Top</b>	Audit/Risk Committee Meetings	Audit/Risk Committee Membership
ERM Policies & Procedures	Organisational ERM Culture	ERM Standards Compliance
ERM Function Risk Management	<b>ERM Strategic Frameworks</b>	Audit/Risk Committee Charter
ERM Participation in Governance Forums	Entity Strategy & Objectives	Stakeholder Management
Combine Assurance Model		ERM Performance Framework

## People skills & expertise

<b>Recruitment and Selection</b>	Skills Development Plan	<b>ERM Performance Management</b>
Individual Performance Capability	Career and Personal Development	Existing ERM Skills & Competence Mix
<b>ERM Roles &amp; Responsibilities</b>	Succession Planning	Values, Beliefs & Behaviour
People Management Policies	Strategic Alignment of People	People's understanding of ERM Service Tools



# Key Maturity Assessment Attributes

## Communication & Reporting

ERM Report  
Cycle Times

ERM  
Reporting  
Templates

Governance  
Reporting  
Protocols

Use of  
Technology  
in ERM

ERM Quality  
Assurance  
Framework

Design & quality  
of Report  
Contents

Communicating  
Change  
Management

Report  
Finalisation  
Protocols

Risk  
Acceptance  
Mechanism

Lessons Learnt  
Reporting

Common ERM  
Language  
Usage

## Methods & Practices

ERM  
Methodology,  
Tools &  
Techniques

ERM Project  
Plans

Administrative  
Policies &  
Procedures

Annual  
Operational  
ERM Plan

Risk  
Acceptance  
Mechanism

Client  
Perception on  
ERM Service  
Delivery

ERM Action  
Tracking  
Mechanism

Technology in  
ERM  
implementation

ERM Knowledge  
Management

Proactive Vs.  
Reactive ERM  
Assurance

ERM  
continuous  
improvement



# Key Maturity Assessment Attributes

## Information & Systems

Access to  
Big Data &  
Information

Degree of  
ERM Report  
Automation

Automated ERM  
Issue Tracking  
Tools

Computer Tools  
Used

Knowledge  
Library for  
ERM processes

ERM Software  
Development

ERM Report  
Integration

Lessons Learnt  
Knowledge  
Management

Use of Key Risk  
Indicators

Mix of Manual vs  
Automated ERM  
Processes



# Maturity Transformation Dashboard

Key Pillar	Maturity	Initial	Defined	Implemented	Managed	Leading
Governance Philosophy	Current	35%	12%	15%	25%	13%
	Desired	15%	15%	20%	30%	20%
People Skills & Expertise	Current	15%	20%	10%	25%	30%
	Desired	5%	10%	15%	35%	35%
Methods & practices	Current	20%	20%	15%	25%	20%
	Desired	15%	10%	25%	25%	25%
Communication & Reporting	Current	25%	20%	15%	25%	15%
	Desired	15%	15%	15%	35%	20%
Systems & Information	Current	30%	10%	20%	25%	15%
	Desired	15%	10%	15%	35%	25%



## Contacts

- t 011 656 5078 | f 011 656 5079
- 5 Carnation Street, Gallo Manor, Sandton, 2156

