

## Governance and the Role of Risk Management

Preparing to meet the future challenges  
as CRO of Municipalities

Presentation to delegates at BarnOwl  
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# Risk management

*“A ship is safe in harbor, but that’s not what ships are built for”*

***William GT Shedd***



# Risk Management – expect the unexpected

Sorry SABC.  
We know how much you hate fire starters.

Nando's

Hey Eskom,  
now that you've discovered that water makes coal wet, here's some more breaking news...

Nando's

Ordered to go?

We've got choices you won't come under fire for.

Nando's



## Pre 2019 election stress?

*Our country has changed – and will change again*

- *State Capture*
- *Vote of no confidence*
- *Downgrading and impact on municipal debts*

*The world has changed – and still changing*

- *Trump vs Korea*

*The risk profile of your municipality/ entity is ever changing*

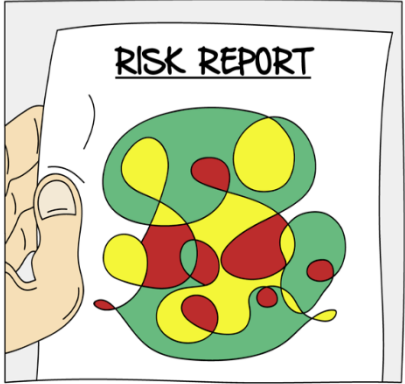
***Stakeholder expectations will change AGAIN***

# Current topical issues? Were you ready?

- ❖ **Cash Constraints** –
  - ❖ Debtors being written off
- ❖ **Emfuleni** :
  - ❖ Nando's
  - ❖ Potholes
- ❖ **City of Johannesburg** –
  - ❖ Billings - August
  - ❖ Mashaba opens criminal case against building contractor – substation R212m
- ❖ **City of Tshwane**:
  - ❖ Taxi's and Fines & renewing licenses – August 2017
  - ❖ CoT moves into R2bn green home – July 2017
  - ❖ Irregular expenditure – AGSA
- ❖ **Mogale City**
  - ❖ Mayor appointment – June 2017

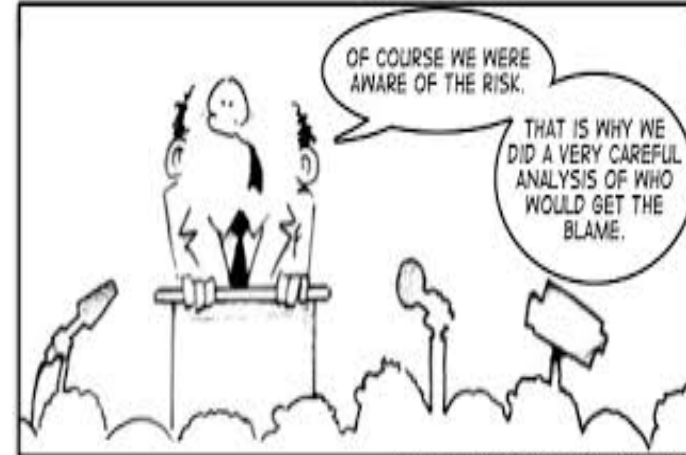


# Risk management



# 2017/18 and beyond – ARE YOU READY??

1. What is our reputation worth and who owns it?
  - Individually
  - As Municipality
2. Are you REALLY prepared for a crisis?
  - Budget availability through the MTEF for RM ?
  - Are you involved in Strat Plan and SDBIP?
3. Do I know who's ready to lead during a crisis, and am I honest enough to say I may not be



# Governance Framework

## Key Legislation:

- Constitution of the Republic of South Africa
- MFMA / MSA
- Municipal by-laws

## Governance Principles

- King III for the year under review, with early adoption of King IV in some reporting matters
- Councillors Code of Good Conduct

## Policies, Procedures, Processes and People in place

- Council Charter & Council and sub-committee TOR's
- Conflict of interest declarations
- Delegation of authority, Company Secretary
- Ethics hotline
- **Strategic Risk Management and Risk Assessments**
- Annual review of finance function
- Gift policy

Ethical Leadership

Zero tolerance for corruption and reckless behaviour

Clearly defined roles and responsibilities





# King IV and Key considerations for Risk Managers

King IV replaces King III in its entirety

*Applicability : Whilst King IV™ is voluntary (unless prescribed by law or a Stock Exchange Listings Requirement*

1. King IV is effective in respect of financial years commencing on or after 1 April 2017
2. While King III -companies to **apply or explain**.

*King IV assumes application of all principles, and requires entities to explain how the principles are applied –thus, **apply and explain***

3. King IV is principle -and outcomes-based rather than rules-based
4. Corporate governance should be concerned with ethical leadership, attitude, mindset and behaviour

# King IV and Key considerations for Risk Managers

## King IV replaces King III in its entirety

King IV replaces King III in its entirety.... continues.....

5. The focus is on transparency and targeted, well-considered disclosures
6. Remuneration receives far greater prominence, in line with international developments
7. King IV recognizes information in isolation of technology as a corporate asset that is part of the company's stock of intellectual capital and confirms the need for governance structures to protect and enhance this asset
8. There is a new emphasis on the roles and responsibilities of stakeholders

# King IV and Key considerations for Risk Managers

## Governance

### *TICK Box vs Outcomes-Based Approach*

Another key change is that King IV is the first code that is outcomes-based to demonstrate what can be achieved if governance principles are implemented effectively. **(Clean Governance)**

This enhancement is to try and reduce the “tick box” or “mindless compliance” **(Clean audit) approach when applying King corporate governance principles**



# King IV and Key considerations for Risk Managers

## Governance

- King IV has emphasized the importance of risk management to assist the company in considering the **interdependences of risk**.
- The Governing Body should consider what constitutes excessive risk taking and set the level of **risk appetite and tolerance**.
- The Board and associated committee/s should have the appropriate level of oversight and approval.
- *King IV recommends that there should be overlap in membership between the audit and risk committee and that the risk committee should constitute at least three directors majority being non-executives.*

# King IV and Key considerations for Risk Managers

## Governance

The level of disclosure regarding the **effectiveness of the risk and opportunity management process** has increased.

King IV is calling for companies to disclose the **processes for managing risk and opportunity, key focus areas, mechanisms for monitoring the effectiveness of risk and opportunity management and how uncertainties** have affected performance and **future strategies**

***Risk has become focused on Opportunities –positively***



# Key considerations for Risk Managers

- Focus on the **future** – take a proactive approach to risk identification (eg, with a risk and compliance-based audit plan)
- Integrate ERM to develop a mix of risk and compliance-based audit efforts
- Augment skill sets (increasing the role of IT and subject matter professionals) and leverage resources
- Focus on fraud – control environment (tone at the top), hotline activities, fraud risk assessments
- Establish an adviser role – initiatives rationalisation and ERM
- Build continuous RM capability and influence continuous monitoring techniques together with IA
- Maintain independence and objectivity
- Leverage access to management



# Rebalance Risk Management Activities: Governance, Stakeholder expectations and risk management



Risk Management is critical in planning of projects and processes

## Operation clean audit

- Is your key task to manage the AGSA Process or to implement and maintain ERM?
- Balance?
- Have we lost the plot?

**Rebalance your deliverables as Risk Manager – do what is expected from a Risk Manager**

**Refocus on service delivery and risk based project and process management**

# Build your talent – attract, develop and retain the best

It remains a challenge in many municipalities to attract the right skills

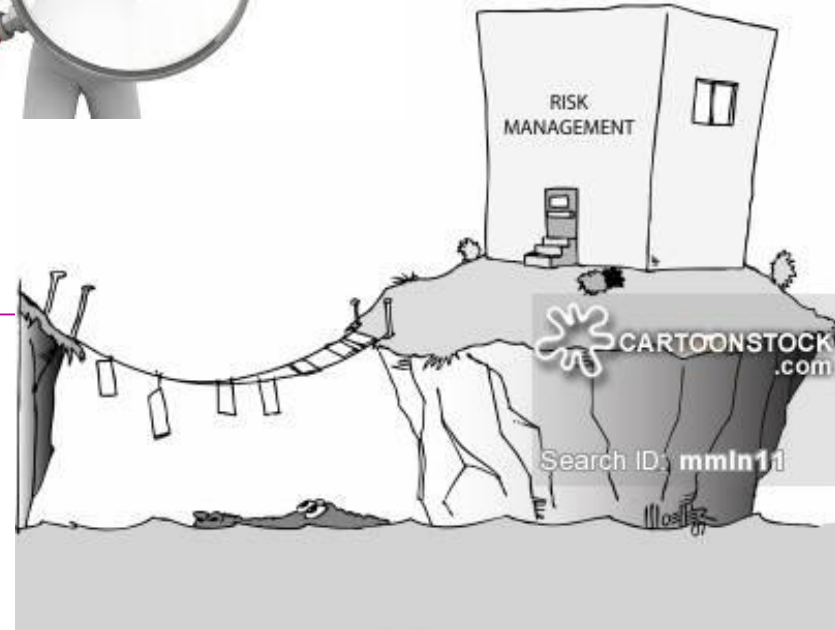
- Baby boomers are starting to leave the work place
- Millennials are not prepared to stay if not appropriately challenged on a day to day basis (functions, remuneration, quality of life)
- Vacuum..... What can we do?
- *Continuous education and staff development*
- *Appointment of professionally qualified staff*
- *Vision, foresight, drive to lead and empower*
- *Participate in the profession – IRMSA and the newly developed qualification (ORO, ORP)*



# 2017 and beyond.....

## Be Ready for change

- Ensure that you remain diligent in what you do
- Remain relevant
- Remain Positive and Passionate



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# Thank you

