



Risk Management Universe

12th April 2019



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Chartered Institute of
Government Finance, Audit & Risk Officers

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1. Overview



Section I: Understanding the Risk Universe

- A. Understand the various layers in our organization that lead to Risk Universe
- B. What is the relevance of Risk Universe in our varying respective organizations and level of government
- C. How visible are the decision making structures on risk management universe in government?

Section II: Evaluating Critical Country & Global Risk Information/Trends

- A. What reliable data can be used as part of your organizational analysis?
- B. Adapt questions to pose to management to key risk areas your organization is facing.
- C. Use the available information towards the effective development of your organization's risk universe.

Section III: What have been the failures and benefits of understanding and responding to risks within the Risk Management Universe?

- A. Lets look at the e failures and root causes

Section IV: How do we reposition Risk Universe in the new dawn?

- A. What does the future risk universe look like[Emerging Risks]?
- B. What role will the various assurance play? [Internal Audit; Strategist; Finance; Monitoring & Evaluation
- C. Key Take-Always





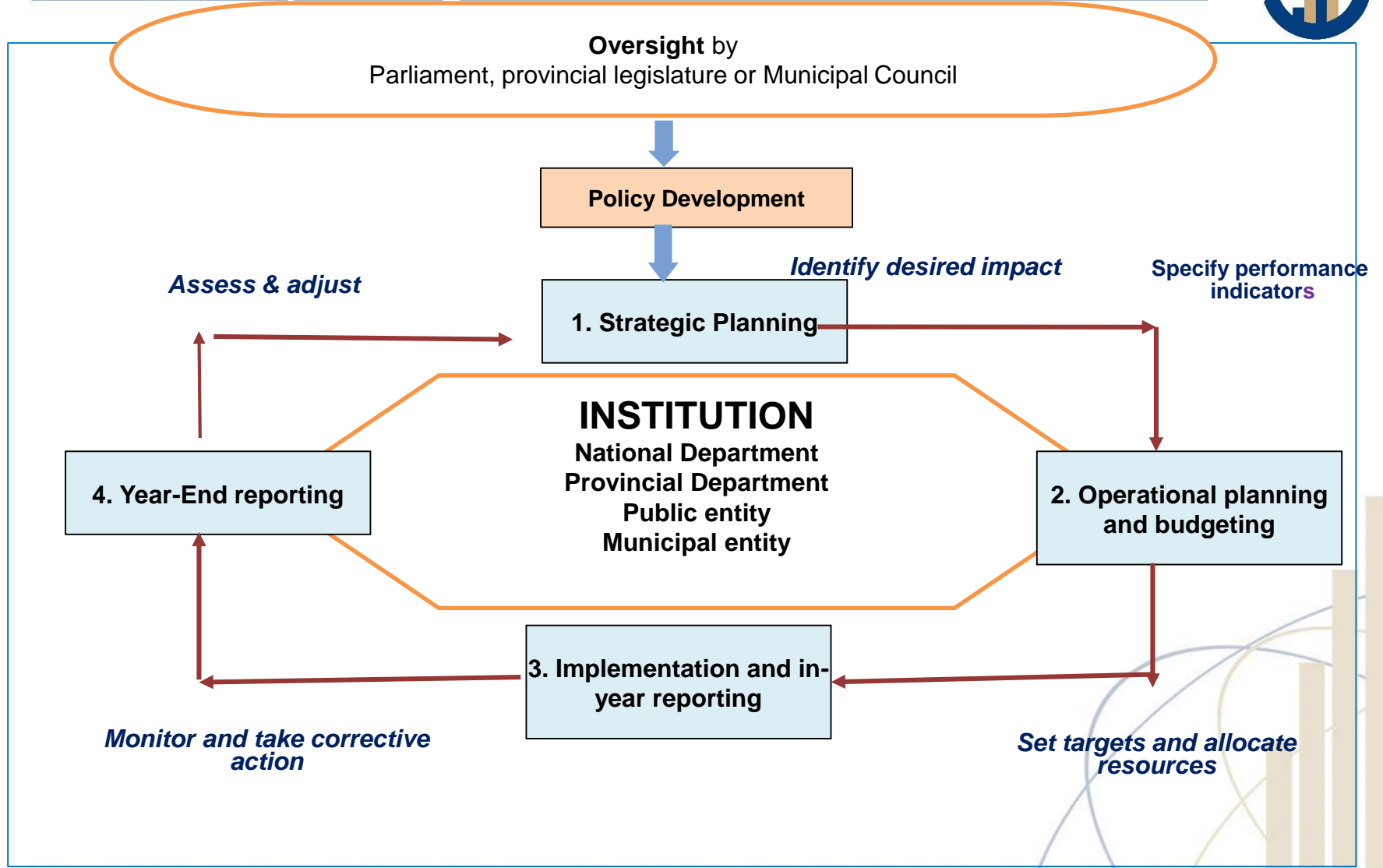
Section I Understanding the Risk Universe



Acknowledgement/ Sources

1. Department of Arts and Culture Reports
2. Institute of Risk Management South Africa Risk Report 2019 [IRMSA]
3. Gartner former known as CEB [Research Report
4. Risk Tower [CEO- Michael Ferendinos]
5. Enterprise Risk Management Initiative Staff
6. Marsh South Africa
7. Lloyds' City Index
8. Dr Hermie Le Roux
9. **Facilitator-** Tebogo Gafaane. **Panelists**[Phumi Madlala; L.G Davhana]

1. Government Approach to planning- Hierarchy of Macro planning



2. Key Mistakes from the past – rectified by identifying the risk universe.



Pitfall 01

A myopic view of risk assessment

Pitfall 02

Misalignment of elements in the strategic risk management process

Pitfall 03

Focusing on history rather than current risk exposure

Pitfall 04

Reporting on too many risks

Pitfall 05

Excessive focus on compliance vs. service delivery

Pitfall 06

Prone shortcomings in setting targets (SMART Principle)

2.1 Solutions to Identified Pitfalls

Myopic View of Risk Management

Example

- Bias towards operational risks which are incorrectly elevated to strategic risks
- Re-identifying existing threats
- Omitting to identify real new threats

Solution

- Engage with your stakeholders
- Increase the antenna beyond the inward focus view on risks e.g. (Map the external environment)
- Utilise risk management information to inform strategic management decisions

Misalignment of elements in the strategic risk management process

Example

- Sub-optimal sequence of planning, budgeting, risk review and target setting (integrated planning)
- Executive management not taking full ownership e.g. (governance, compliance, consequence management and transparency)

Solution

- Prioritize, align and consistently comply to the planning process.
- Familiarize and apply risk categories to inform key controls and cost saving
- Ratify strategic risks before final inclusion in the APP
- Executive Risk owners to take accountability of key strategic risks
- Management to collaborate and communicate progress made and key changes to risk exposure through monitoring of [KPI & KRI].

2.2 Solutions to Identified Pitfalls

Giving Assurance on Historical Issues

Example:

The speed at which the risk will impact the organization is key, so identifying and providing assurance on past risk incidents is futile.

Solution:

- The risk profile should consider emerging risks and incorporate into their register
- Management should develop action plans which address current risk exposures

Reporting on too many risks

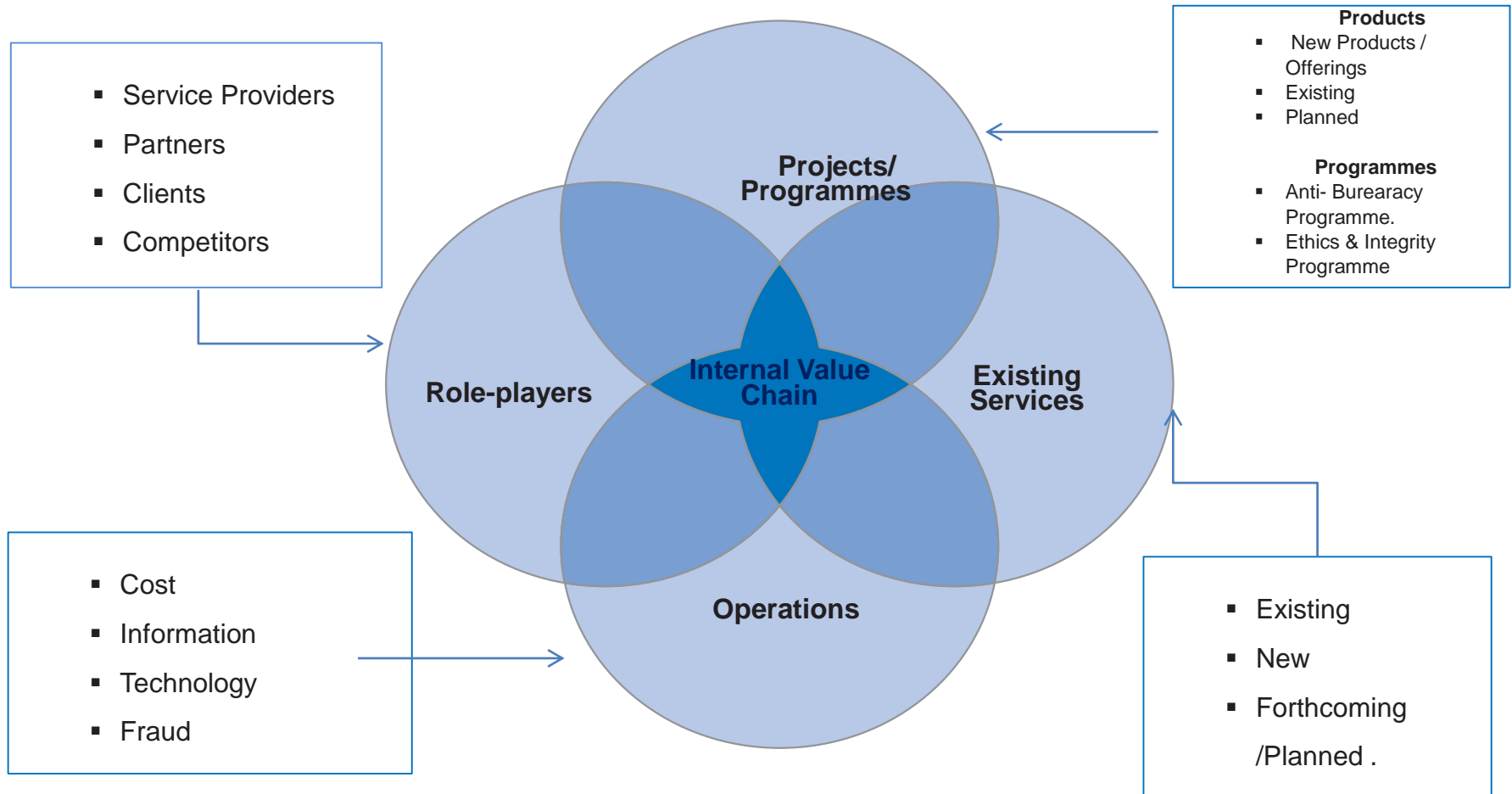
Example

Too many risks spreads the focus and may lead to unconscious monitoring of irrelevant risk strategies.

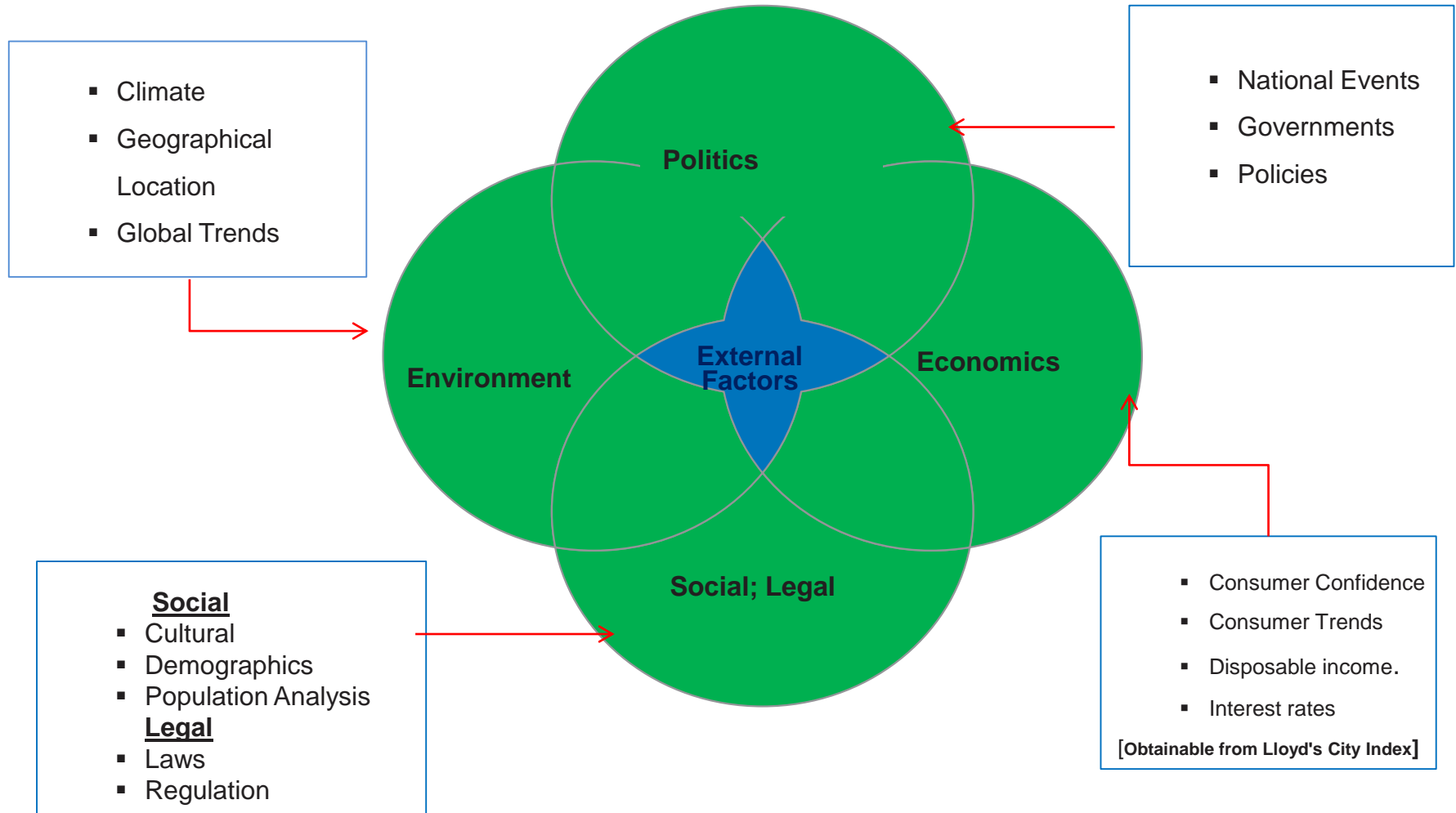
Solution

- Focus on Key Strategic Risk exposures and *most potent* threats to the organization.
- Eliminate reporting on issues and focus on real risks.

3. Internal Factors that will affect your Risk Universe



4. External Factors that will affect your Risk Universe



5. Scanning new characteristic risks – External Environment



Political Risk

1. The most common criticism on political risks is that political decisions are taken when key **projects are underway.[Budget allocation.]**
2. Political risks are easier before they become a **full-blown crises.**
3. Damage control is usually too costly[employment of management consultant; ex-diplomats, lawyers to protect **shareholder's value.**
4. Political decisions once taken are difficult to reverse.
5. Politicians' credibility is at risk.
6. There are no standard charts to manage political risks.

How would you communicate it?

1. Macro-political e.g . Political risk impacting all businesses across the country.
2. Micro-political impacts a particular industry and sector.
3. Incorporate strong arbitration language into contracts.
4. Be attuned to what is happening in the country. [Obvious right?]
5. Don't be focused into operational issues to lose the bigger picture.

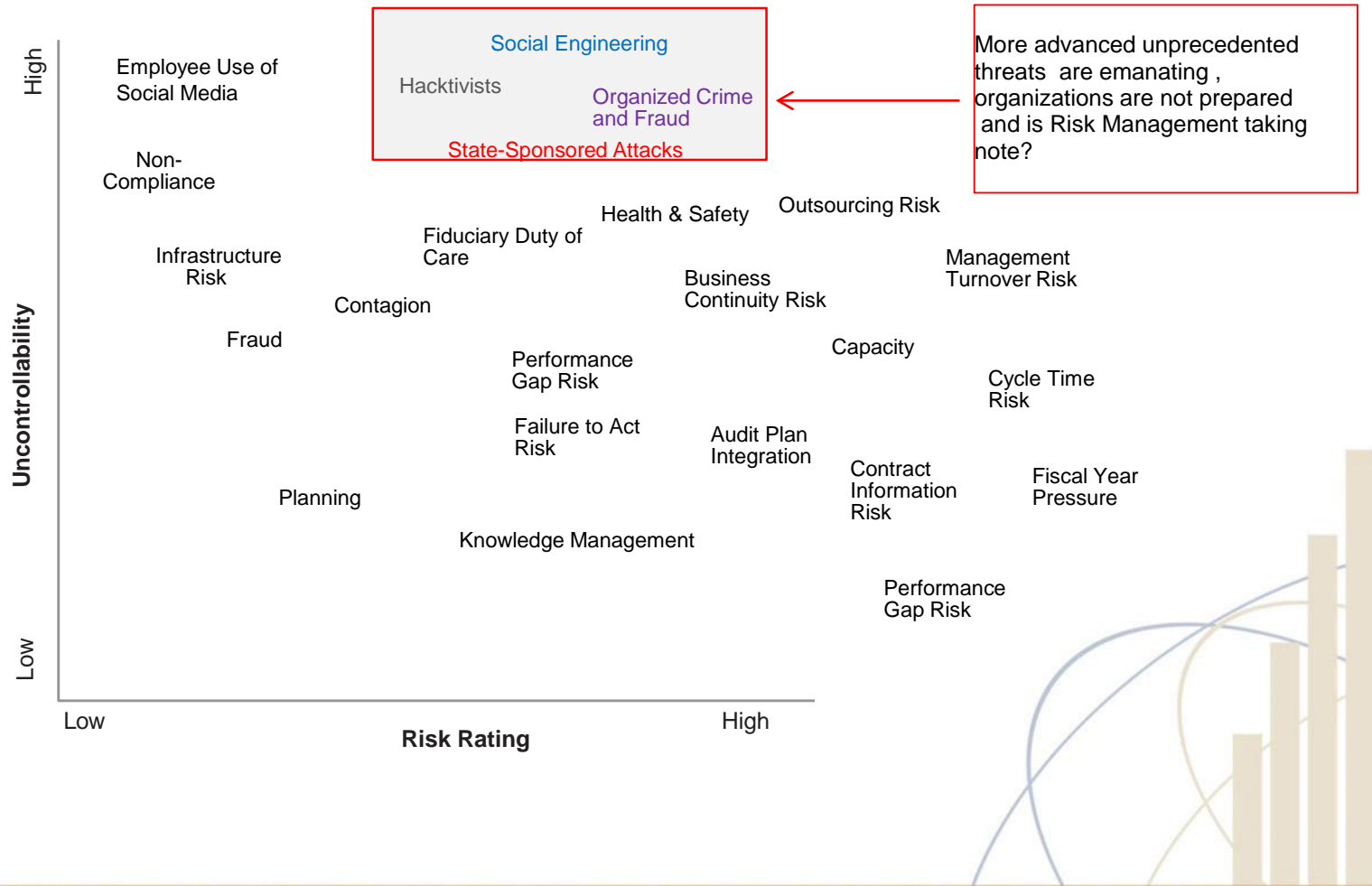
How do you minimize the risk ?

1. Undertake proper planning.
2. Assess long term policies whether they support risk transfer , and are less likely to be repealed.
3. Incorporate strong arbitration language into contracts.
4. Be attuned to what is happening in the country. [Obvious right?]
5. Don't be focused into operational issues to lose the bigger picture.

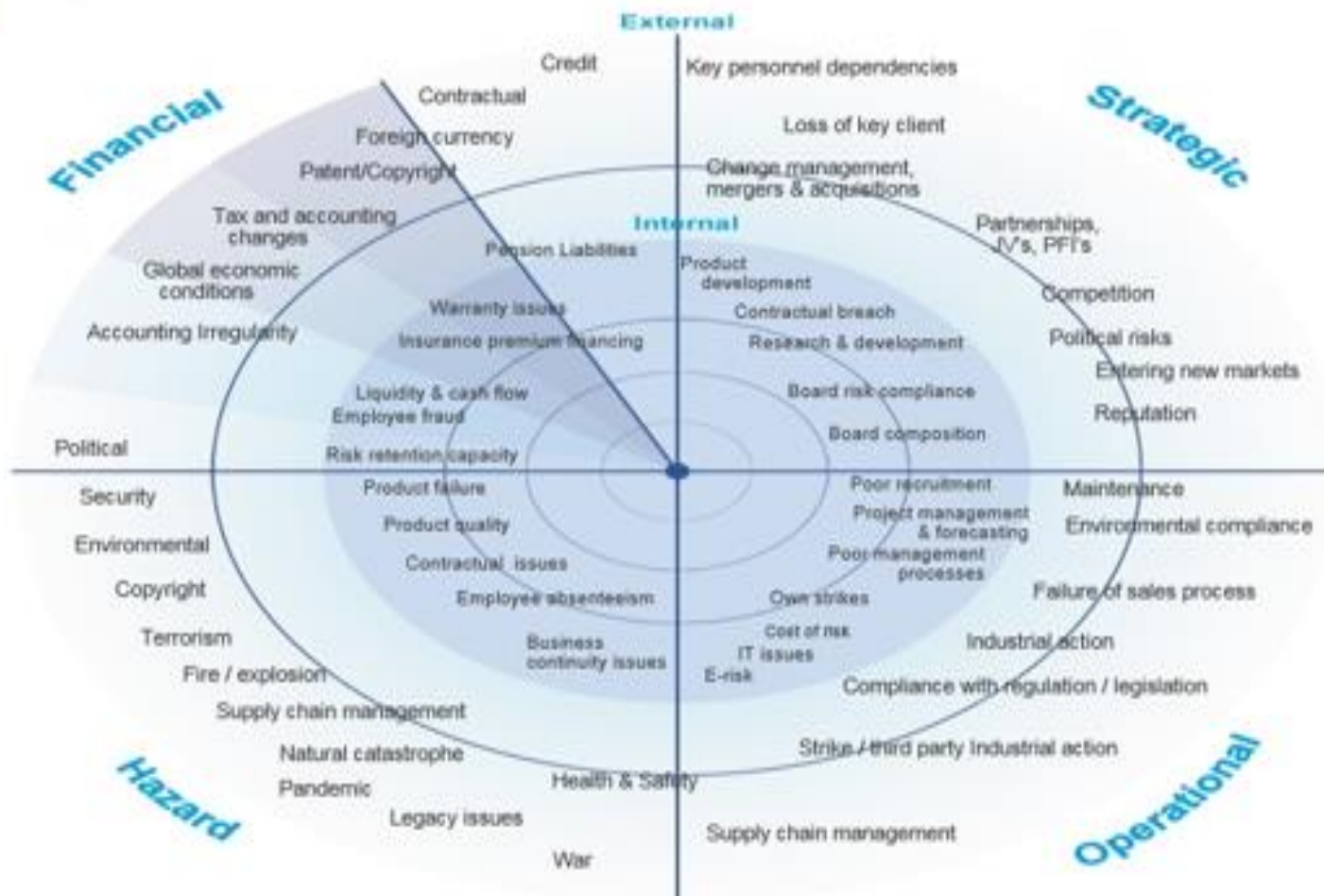
6. The Threat Landscape



Threats that should cause organizations most concern



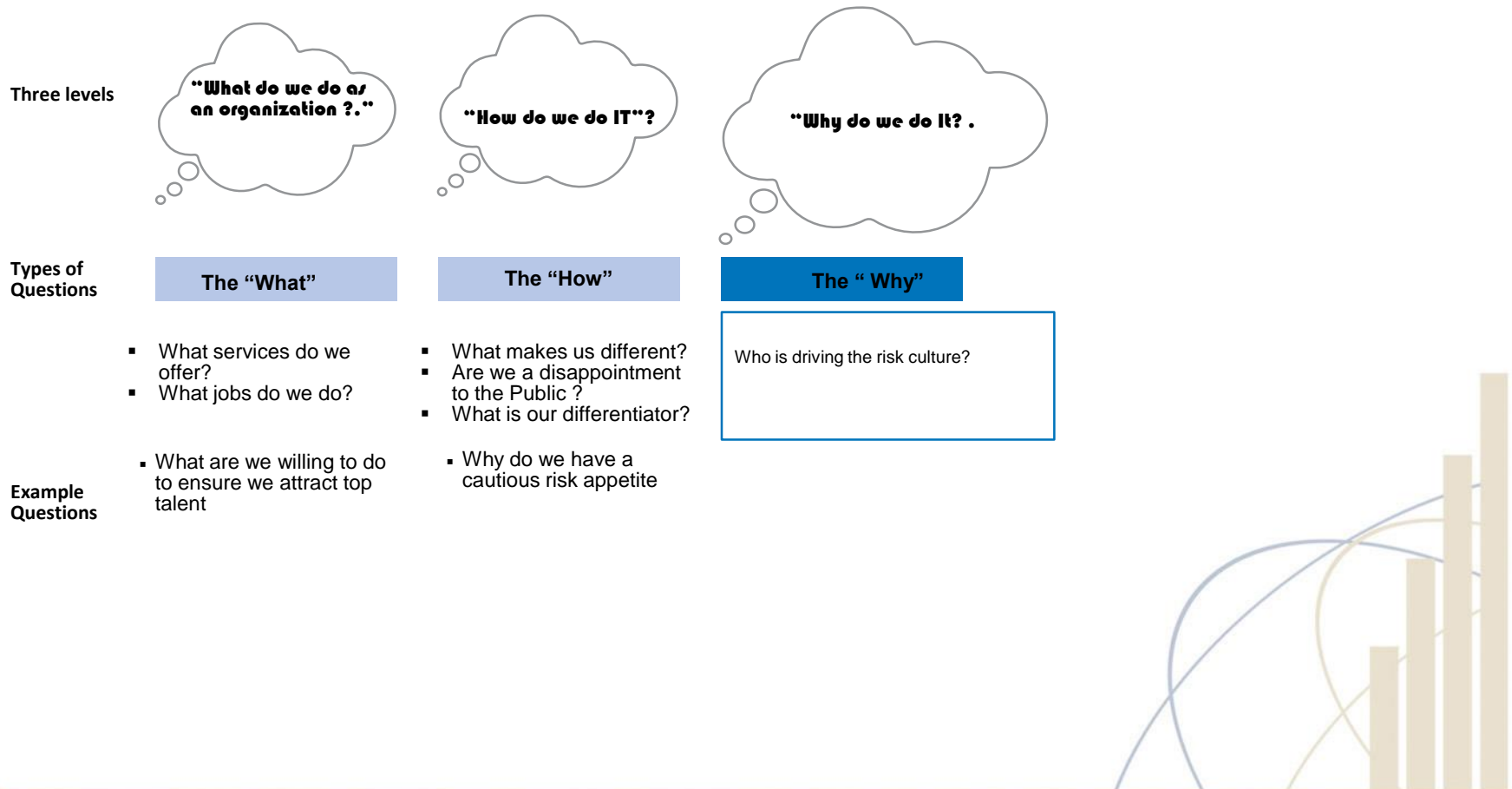
7. Organizational Risk Radar



8. Probing Questions to Deepen the understanding – Risk Universe



Understand the ‘what’ and ‘why’ approach to outline probing questions for the organizations key stakeholders.



9. Activities – Towards finalizing risk universe

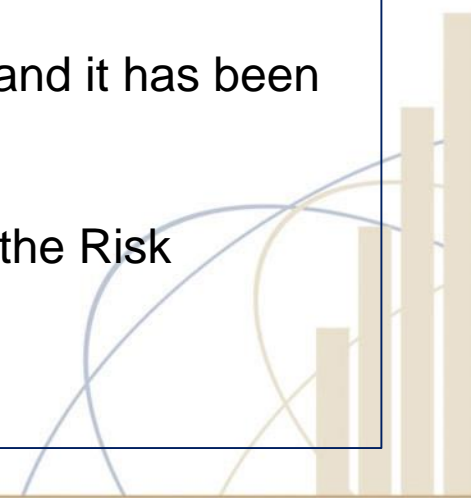


	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
Launch Risk Assessment	Executive Engagement					Begin Risk Assessment Process for the F/Y		2019/20 First Draft APP , to DPME and National Treasury 31 August 201			2019/20 Second Draft APP submitted to DPME and National Treasury 30 November 2018	Draft ENE [Estimates for National Expenditure]. Submit to National Treasury in Nov/Dec 2018
Complete Risk Assessment		Final Submission of APP, Risk Profile		Risk Appetite & Statements Review			Risk Assessment Complete [1st Draft]			2nd Draft Review of the APP , Risk Profile		
Report Organizational Risks				<ul style="list-style-type: none"> Risk Governance Committee Q4 & Annual Risk Committee Annual ERM Results Self-Assessments 					<ul style="list-style-type: none"> Executive Man Review Risk Comm Review Audit Comm Review 			
Strategic Planning		<ul style="list-style-type: none"> Determine Market Forces; Risk Universe Review 			<ul style="list-style-type: none"> Annual Review Strategic Review of Organizational Perf against prior year 	<ul style="list-style-type: none"> Creation of new strategy Environmental Scan Results Alignment of programmes to strategy 						

10. Decision making Structures Risk Management Universe in government?



1. Risk Management is **not blossoming** in government.
2. A Department/municipality **has not been the primary decision** making unit for Risk Management in government
3. There are **too many other organizations** that make decisions on risk management as opposed to a single centre. [Parliament; Scopa; DPSA; National Treasury; Provincial Treasury; Local Government and State Owned Entities]
4. Government is **assessed on its value to the public**, and it has been operating at a **trust deficit** to the public, therefore
5. It has been difficult to decide what should comprise of the Risk Universe that will **add value to the Public.**

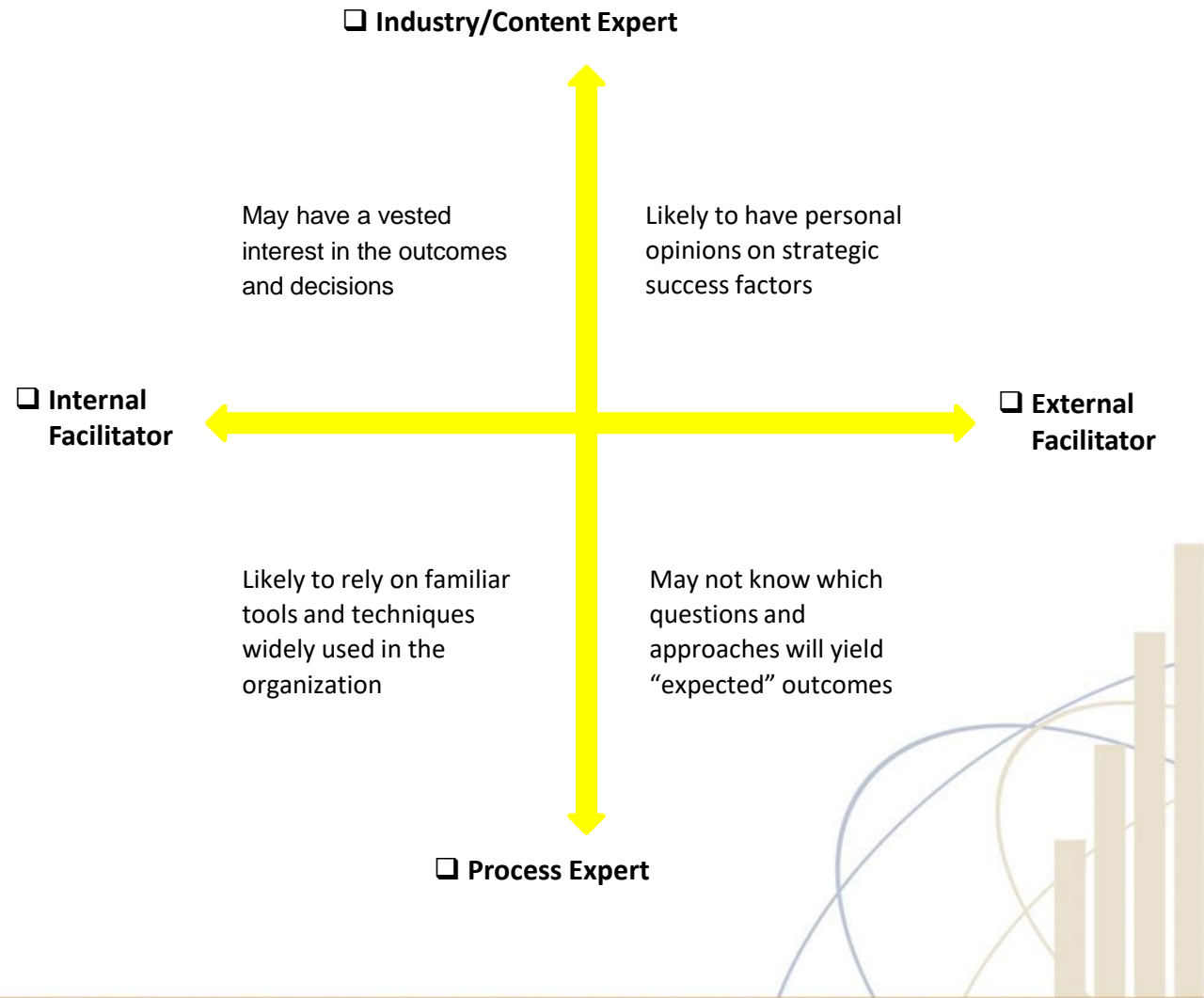


11. Facilitator Selection in Determining Risk Universe



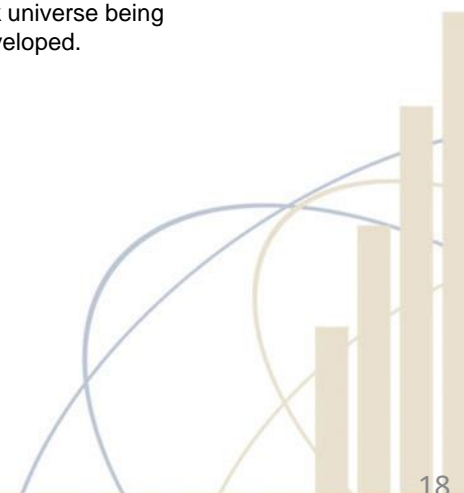
When to consider an external facilitator?

- Limited Resources - you lack the time or skills needed for a successful outcome
- Highly Combustible - strong personalities and/or controversial subject matter require a delicate yet firm hand
- You Need a Win -if past sessions were suboptimal and you want to involve an expert.



12. Key Discussions to have in a Risk Universe Workshop

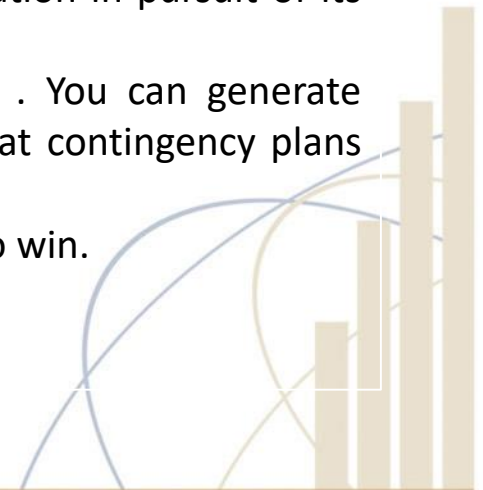
	Welcome and Ground Rules	Explain Risk Universe Concepts	Validate Business Case for Risk Universe	Review Exhibited Risk-Taking Posture	Assess Stakeholder Views	Confirm Next Steps
Key Discussions	Set expectations for the conversation and ground rules. Review the agenda and major discussions for the workshop.	Review what risk universe is as a concept. Ensure all stakeholders have a basic understanding of what risk universe is and isn't. Cover the purpose, process, and payoff expected of risk universe establishment.	Explain why the organization is developing a risk universe. Confirm the issues present in the organization that present a business case for developing a risk universe.	Present ERM's finding of the organization's exhibited risk-taking posture. Validate that those findings reflect the current state of the organization.	Have stakeholders convey their views .	Confirm next steps, responsibilities, and timelines for creating risk appetite statements and discuss the potential need for identifying relevant metrics and tolerance levels.
Success Criteria	Stakeholders understand the agenda for the workshop.	Stakeholders understand risk universe conceptually.	Stakeholders agree on the business case for risk universe.	Stakeholders agree on the organization's exhibited risk-taking posture and any areas of inconsistency.	Stakeholders have come to a consensus on their views for the risk universe being developed.	Stakeholders agree on next steps.



13. Key Take - Away

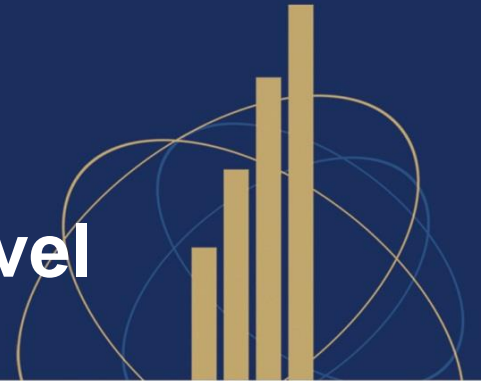


1. Situational Awareness is key ; know **what is happening around** the organization [Events; internal & external the organization]; and consolidate these prior to plotting a Risk Universe.
2. Commercial Awareness – [Mission & Aims; understand the Sector; **possess knowledge of political an economic** issues affecting the business.
3. Risk Management has to categorize risks for more effective risk management
4. **Internal Risks** is where a rules based approach apply [People Risk – Misconduct can be resolved through the application of the Code of Conduct]; so understand the regulatory universe for all internal risk exposures.
5. **Strategic risks** arise from the long-term decision taken by an organization in pursuit of its mission.
6. **External Risks** are largely out of the control of the organization . You can generate scenario around the risk events that can occur in the future and what contingency plans would be in place. [Scenario analysis for example]
7. You can source in a facilitator to facilitate this process if you have yet to win.





Section II Evaluation Key Critical Information at Country & Global Level



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14. SA's top Ten Risks Yr on Yr [IRMSA Report]

2016	2017	2018	2019
1. Insufficient electricity supply	1. Increasing corruption	1. Structurally high unemployment / underemployment	1. Structurally high unemployment
2. Increasing corruption	2. Water crises	2. Unmanageable fraud and corruption	2. Growing income disparity and inequality
3. Skills shortage	3. Unemployment or underemployment	3. Government policy, legislative and regulatory changes and uncertainty	3. Failure of governance – [public sector]
4. Education and skills development	4. Droughts in sub-Saharan Africa	4. Failure of governance (public and private)	4. Unmanageable fraud and corruption
5. Water crisis	5. Lack of leadership	5. Lack of leadership	5. Inadequate and/or sub-standard education and skills development
6. Structurally high unemployment/ underemployment	6. Fiscal crisis and credit rating downgrades	6. Growing income disparity	6. Energy price shock
7. Lack of leadership	7. Economic slowdown or recession	7. Macro-economic developments	7. Labour unrest and strike action
8. Increasing strike action	8. Increasing strike action	8. Profound political instability	8. National political uncertainty / instability
9. Failure/shortfall of critical infrastructure	9. Profound political and social instability	9. Cyber-attacks and cyber-attack non-disclosures	9. Cyber-attacks (ransom, algorithm shutdown of the internet of things)
10. Severe income disparity	10. Governance failure	10. Skills shortage including the ability to attract and retain top talent	10. Macro-economic developments

15. Country top 10 trend analysis – comparison year-on-year

2016	2017	2018	2019
Insufficient electricity supply	Increasing corruption	Structurally high unemployment / underemployment	Structurally high unemployment
Increasing corruption	Water crises	Unmanageable fraud and corruption	Growing income disparity and inequality
Skills shortage	Unemployment or underemployment	Government policy, legislative and regulatory changes and uncertainty	Failure of governance - public
Education and skills development	Droughts in sub-Saharan Africa	Failure of governance (public and private)	Unmanageable fraud and corruption
Water crisis	Lack of leadership	Lack of leadership	Inadequate and/or sub-standard education and skills development
Structurally high unemployment/underemployment	Fiscal crisis and credit rating downgrades	Growing income disparity	Energy price shock
Lack of leadership	Economic slowdown or recession	Macro-economic developments	Labour unrest and strike action
Increasing strike action	Increasing strike action	Profound political instability	National political uncertainty / instability
Failure/shortfall of critical infrastructure	Profound political and social instability	Cyber-attacks and cyber-attack non-disclosures	Cyber-attacks (ransom, algorithm shutdown of the internet of things)
Severe income disparity	Governance failure	Skills shortage including the ability to attract and retain top talent	Macro-economic developments

16. IRMSA REPORT 2019

Risks which could improve [18 months to 5 year period]

- | | |
|---|--|
| 1 | Unmanageable fraud and corruption |
| 2 | Insufficient supply of electricity |
| 3 | Growing income disparity and inequality |
| 4 | Energy price shock |
| 5 | Lack of leadership |
| 6 | Micro economic developments |
| 7 | Loss of reputation and severe brand damage |
| 8 | Capital availability and credit risk |

17. IRMSA REPORT 2019

Risks which could deteriorate [18 months to 5 year period]

- | | |
|---|---|
| 1 | National political uncertainty/instability |
| 2 | Breakdown of critical infrastructure & networks |
| 3 | Disruptive technologies |
| 4 | Structurally high unemployment |
| 5 | Lack of innovation including resistance to change |
| 6 | Cyber attacks |
| 7 | Impact of new technology |
| 8 | Inadequate succession planning |

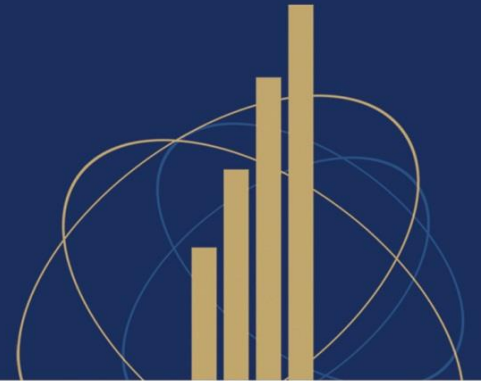
18. IRMSA REPORT 2019

Risks which could deteriorate [18 months to 5 year period]

1	National political uncertainty/instability
2	Breakdown of critical infrastructure & networks
3	Disruptive technologies
4	Structurally high unemployment
5	Lack of innovation including resistance to change
6	Cyber attacks
7	Impact of new technology
8	Inadequate succession planning



Section III Failures and Benefits



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19. Failures and Benefits ...

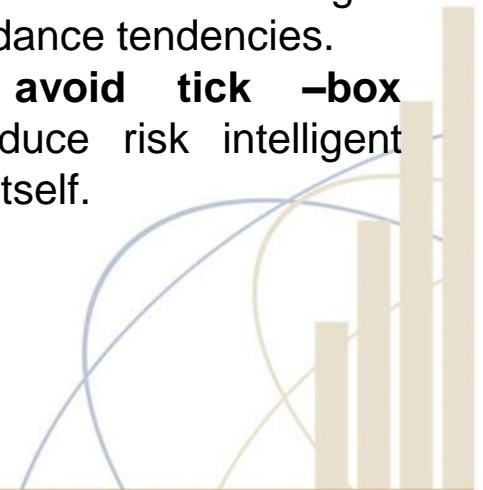


Failures

1. Risk Management practices have been **inappropriately applied** in the public sector.
2. Potential worsening of the **blame-avoidance** practices in government.
3. Blame has been passed to the **government entity** that is **politically weak**, rather than those that have to take the responsibility.
4. Risk Management is too **mechanistic**; and will further the **bureaucracy** culture in government.

Benefits

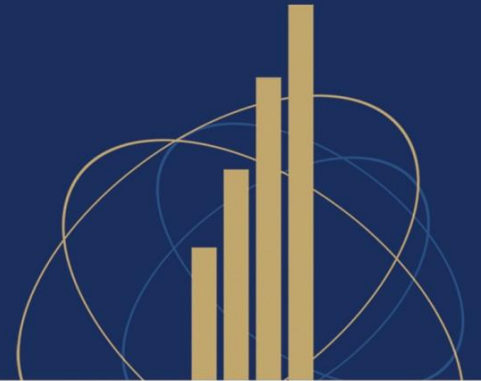
1. Government Programme of Action “brings the whole system and **decision makers in the room**”.
2. An opportunity exists outside political parameters to **re-design** the risk management universe.
3. Focus on **systemic risk** to enable the real problems that are facing a government entity or state organ can be managed without the blame-avoidance tendencies.
4. An opportunity to **avoid tick -box** compliance and introduce risk intelligent deliberations presents itself.





Section IV

Emerging Risks in the new Dawn



20. Emerging Risk Defined...



Describing an Emerging Risk – Meta Language

[Something might occur]

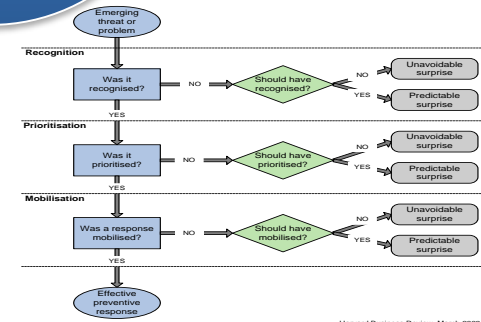
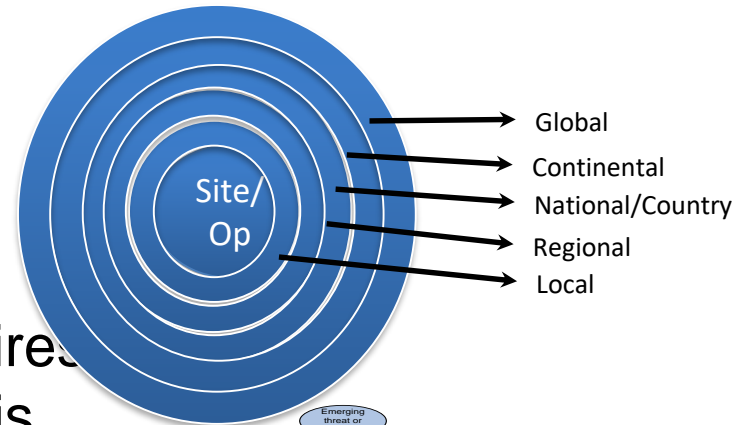
leading to.....,

caused by,

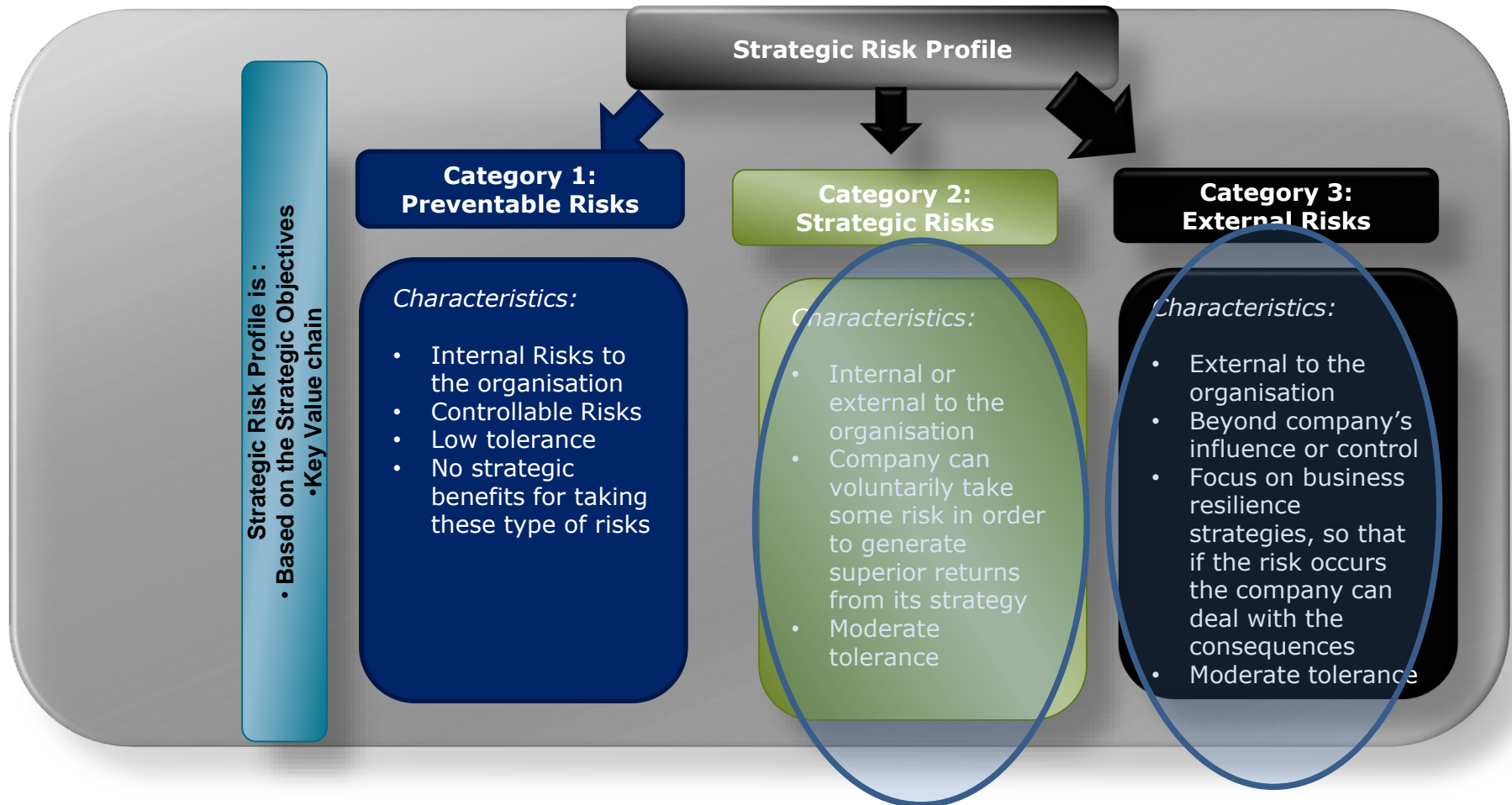
Kenny Kunene might become SA's president,
Leading to changing terms of trade and possible erosion of SA' profit margins,
Caused by trend of increasing national resentment.

21. Emerging Risk Identification Tools

1. Business in context
2. Risk Categories
- 3. Risk Universe**
4. Brain storming
5. Surveys/questionnaires
6. Dependency analysis
7. Interconnectedness
8. Trajectories
9. Prioritization
10. Scenarios



22. Emerging Risks within Risk Categories



23. Setting Risk Appetite Statements

Setting Risk Appetite -Reputation Risk

1. We have an extremely low appetite for reputational risk and must incorporate business practices, policies, and actions that ensure that its reputation is safeguarded and protected at all times.
2. Our organization will adhere to its core values and fulfil its corporate responsibilities by ensuring it acts responsibly, ethically and with integrity. /
3. We will avoid any situation and action resulting in a negative impact on our reputation and premium brands and, if and when an undesirable situation arises, manage it aggressively to protect our reputation and brand image.

Setting a Scenario for Risk Tolerance -Reputation Risk

An embarrassing video clip featuring senior executives of the organization is leaked by one of your employees. The video has gone viral on YouTube, is seen by millions and covered on the national news. Approximately how much are we willing to spend to resolve the issue?

Setting Risk Appetite -Business Continuity/Employee Health and Safety

1. We have an averse risk appetite for incidents in which we are unable to continue to operate critical business functions with a predetermined recovery time. We will not accept any incidents in which clients are unable to access their information or our services for more than one hour online except in the most extreme circumstances.
2. We have a moderate risk appetite for incidents where the duration of the event exceeds the agreed upon business recovery objectives.
3. We have a tolerant appetite for incidents which impact non-critical business processes or activities. These processes and activities should always be prioritized after business critical and legal requirements.

Setting a Scenario for Risk Tolerance Business Continuity/Employee Health and Safety

The natural calamity in East London has completely destroyed acritical infrastructure facilities at the ICC . How long are we willing to halt operations at this Convention Centre to ensure it is safe to operate?

24. Setting Risk Appetite Statements

Setting Risk Appetite -Talent Risk

1. We have a **cautious appetite** for talent risk, recognizing the need to have people with the necessary skills, level of experience, and vision to enable us to achieve our strategic objectives.
2. We are strongly committed to making our organization a great place to work. We will only take risks relative to this strategic objective if it is essential to achieve other strategic objectives and only if there is effective mitigation available that limits the possibility of a negative impact on employee engagement; otherwise we will manage risks to this objective extremely conservatively.
3. The success of our business depends on our people. We will invest appropriately in recruiting, developing, rewarding and retaining our people, and in developing strong leadership and a culture of openness and transparency.
4. We have **a low risk appetite** for managers that do not support and develop their teams; therefore we have a **high risk appetite** for investing in managerial development and training.
5. We rely on motivated and high quality staff to perform our company's functions. We aim to create an environment where employees are empowered to the full extent of their abilities. The appetite for losses to the value of the company's collective competencies, knowledge, and skills is **very low**.

Setting a Scenario for Risk Tolerance -Talent Risk

What level of staff turnover at ranch Level/ Strategic leadership are we willing to accept, given we plan to deliver a major strategic initiative by the end of the fiscal year.

Setting Risk Appetite -Cyber Risk

1. Because we hold sensitive information related to customers, suppliers, IP, employees, and financial information we have a low appetite for cyber risk. In the event of a breach we risk the loss of major customers, fines, and the disruption of normal business operations.
1. We have an averse risk appetite for a security breach in which significant amounts of confidential data affecting our clients, and/or proprietary information has been compromised that can result in regulatory notification, monetary fines, indemnity, and reputational damage.

Setting a Scenario for Risk Tolerance -Cyber Risk

We experience a denial of service attack on our primary B2C website handling commercial transactions. How big of an issue is this? How long are we willing to leave that website down in order to fix the issue?

25. Real-Time Monitoring Provider



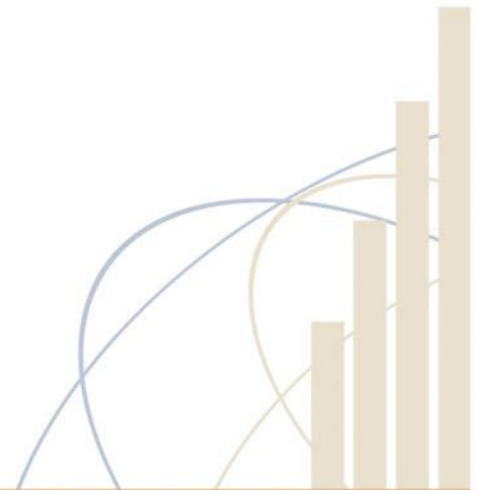
- ☐ **NKC Research**
- ☐ **The Bureau for Economic Research (BER)**
- ☐ **Control Risks / International SOS**
- ☐ **S&P Global Market Intelligence**
- ☐ **S-RM (formerly Salamanca)**
- ☐ **Maplecroft**
- ☐ **AON Political Risk**
- ☐ **Horizon International**
- ☐ **ReliefWeb**
- ☐ **Tropical Storm Risk**
- ☐ **AFP, Reuters etc.**
- ☐ **Red 24 Business Monitor International**
- ☐ **Legal and Regulatory alerts from consultancies and law firms**



26. Long- Term Emerging Risk Monitoring



- ☐ Institute for Futures Research (Andre Roux)
- ☐ Mind of a Fox (Clem Sunter)
- ☐ TomorrowToday (Graham Codrington)
- ☐ Frontier Advisory (Martyn Davies)
- ☐ Insurance Brokers (Marsh, AON etc.)
- ☐ Insurance and Reinsurance Companies (Lloyds, Swiss Re etc.)
- ☐ Consultancies (EY, Deloitte, PwC, Protiviti etc.)
- ☐ International banks
- ☐ Actuarial bodies
- ☐ Universities



27. Coordinating with assurance Providers - Risk Universe



RISK MANAGEMENT

- Have you assembled an implementation team for developing the Risk Universe?
- How are you monitoring the environment to quickly identify significant new risks and changes to the environment?
- Agree on objectives, project leaders, process maps?
- Share the schedule of meetings; share reports , communicate and emphasize the understanding on the development of the risk universe.

MANAGEMENT/ MONITORING & EVALUATION/ FINANCE/ SECURITY

- Capitalize in this relation in the collection of information?
- Demonstrate risk management efficiency to this group.
- Promote teaching this group on the importance of developing risk universe, and not publicize their failures.

INTERNAL AUDIT

- Utilize Internal Audit's expertise .
- Engage them to assist you if this is a new initiative.
- Communicate your concerns to them on the process.



Quote of the Week: <<

The thinking that got us here, won't get us there" — Albert Einstein



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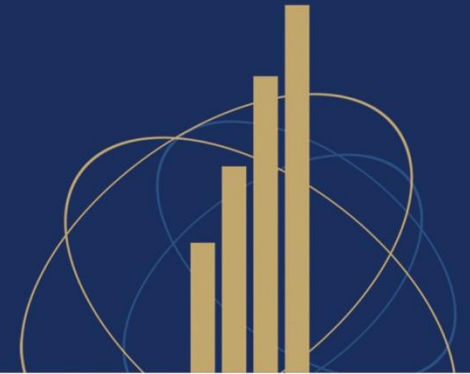
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Thank You!



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