

ENTERPRISE RISK MANAGEMENT STRATEGY

**A policy document for the management of risk within the HSRC also referred to as
the Risk Management Framework.**

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EXECUTIVE SUMMARY

1. Introduction

Effective risk management is imperative for the HSRC to fulfil its mandate and its performance expectations from stakeholders. To derive optimal benefits, risk management shall be conducted in a systematic manner, using proven methodologies, tools and techniques. For consistency in the way that risk management is handled in the HSRC, all divisions and business units are required to adopt the Enterprise Risk Management Strategy (Strategy) in handling risks in their respective areas.

The Chief Executive Officer is ultimately accountable for the institution's risk management in terms of legislation. This function has been delegated to the Chief Risk Officer who is accountable to the Chief Executive Officer.

2. The HSRC ERM Strategy

Risk is an integral part of improved performance, growth and sustainable value creation. Effective risk management reduces uncertainty and thereby improve management confidence to become more decisive in pursuit of the HSRC vision, mission and strategic goals.

Through this Enterprise Risk Management Strategy (ERM Strategy), the HSRC hereby adopts a common and integrated approach to the management of risk such that knowledge and experience is shared and risk management becomes embedded in all activities and work processes. An appropriate balance will be maintained between risk and reward, giving full and due consideration for the legitimate and fair expectations of all stakeholders, resource constraints and sustainable development.

The HSRC Board as part of delivering on its oversight responsibilities will hold management accountable for this Strategy and the management of strategic risks. The Chief Executive Officer; Executive Management and Business Unit Managers are responsible for the management of risks and implementation of this Strategy.

The enterprise-wide risk management programme of the HSRC shall:

- Focus on strategy, work processes, people, technology & knowledge;
- Protect the reputation and brand name of the HSRC;
- Promote risk awareness of all managers and employees and improve risk transparency to all stakeholders;
- Maximise (create, protect and enhance) shareholder value by proactively managing risks that may impact on the achievement of objectives and exploit opportunities that represent the greatest returns on investment;
- Improve the HSRC's ability to deliver high quality products and services and to compete globally;
- Support the HSRC Business Plan and continuously monitor and effectively manage the risks inherent in new projects and partnerships;
- Ensure development and implementation of a risk financing strategy and monitor the total cost of risk.
- Ensure that management understand and acknowledge their responsibility for managing any risk that may impact on their key performance areas or achievement of objectives.
- Ensure that all employees take responsibility for managing risk in their respective areas of responsibility.

In order to ensure achievement of the outcomes listed above, the key performance areas of the ERM Unit shall be as follows:

- **Risk management capacity building:** establish, maintain and continuously improve risk management capacity within the HSRC;
- **Enterprise-wide risk assessments:** design, implement and monitor the system and process of risk management & ensure that it is integrated into day-to-day activities;
- **Risk treatment & risk financing:** ensure development of strategies to manage significant risks and give the HSRC Board reasonable assurance that all identified significant risks are, to the best extent possible, managed and controlled;
- **Coordination, operation and improvement of existing anti-corruption initiatives:** review and continuously improve HSRC's anti-corruption capacity;
- **Compliance with applicable laws, prescripts & guidelines:** ensure that applicable best practice; internal policies; legislation and prescripts are integrated and adhered to;

3. Purpose of the ERM Strategy

The ERM Strategy is a source of reference and guidance on risk management practices within the HSRC. It aims to support the objectives of the HSRC by providing information to enable implementation and maintenance of effective systems to identify and mitigate risks that threaten the attainment of objectives, and to optimise opportunities that enhance institutional performance.

The HSRC ERM Strategy has been aligned to the Public Sector Risk Management Framework recommended by the National Treasury and has been influenced by the joint Australian/New Zealand Risk Management Standard (AS/NZS 4360) prepared by the Joint Technical Committee 1999, the Enterprise Risk Management Integrated Framework prepared by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) 2004, as well as the King Code of Governance for South Africa (King III) 2009.

4. Risk Management Policy Statement

As the HSRC Board, we acknowledge our responsibility to ensure that the HSRC has and maintains an effective, efficient and transparent system of risk management as mandated by the Public Finance Management Act, Act No. 1 of 1999, as amended. The Chief Executive Officer has delegated this responsibility to the Chief Risk Officer.

We recognise our responsibility to manage and use public funds in a responsible manner, and therefore are committed to identify, address and appropriately manage any risks that may affect the safety and wellbeing of our employees and the public, our financial stability and ability to achieve our mission of advancing social sciences and humanities for public use. We also acknowledge that risk management is an integral part of responsible management and therefore have adopted an enterprise-wide approach to the management of risk because enterprise risk management recognises that risks and opportunities are dynamic, often highly interdependent and ought not to be considered and managed in isolation.

We are committed to protect our funds and other assets and as such will not tolerate corrupt or fraudulent activities emanating from either internal or external sources. Any detected corrupt activities will be investigated and, where so required, reported to the law enforcement authorities in accordance with our Anti-Corruption Strategy.

We recognise that the realisation of our mandate depends on management being able to take calculated risks in a way that does not jeopardise the direct interests of stakeholders.

We further recognise that our business requires high quality of scientific expertise and this requirement, by nature, is based on prior experience and therefore acknowledge that having an interest does not necessarily mean having a conflict of interest. Risk awareness, control and compliance are embedded in our day-to-day business activities.

This Risk Management Policy Statement was approved by the HSRC Board and the Chief Executive Officer on **24 August 2010**.

5. Service Delivery Imperative

The concept of risk management is not new to the public service as the basic principles of service delivery (Batho Pele, 1997) clearly articulate the need for prudent risk management to underpin the achievement of government objectives.

Public sector institutions, such as the HSRC, are bound by constitutional mandates to provide services in the interest of the public good. As no institution has the luxury of functioning in a risk-free environment, the HSRC also encounters risks inherent in producing and delivering such services. Stakeholders understand this but expect the HSRC to perform and prevent unnecessary exposure to risk. In other words, stakeholders are averse to value erosion caused by risks that ought to be detected and avoided through prudent management actions.

Effective implementation of risk management principles will benefit the HSRC by underpinning and bolstering institutional performance through:

- (a) more efficient, reliable and cost effective delivery of services;
- (b) more reliable decisions;
- (c) minimised waste and corruption;
- (d) better value for money through more efficient use of resources;
- (e) improved project and programme management, which provides better outputs and outcomes.

6. Legislative Mandate

The mandate for risk management at the HSRC is derived from the Public Finance Management Act (PFMA). Section 51(1)(a)(i) of the PFMA requires the Accounting Authority (HSRC Board) to ensure establishment and maintenance of effective, efficient and transparent systems of financial and risk management and internal control.

Section 45 of the PFMA further extends and establishes the general responsibilities to all managers and is a cornerstone in the institutionalization of risk management in the public service. It establishes responsibility for risk management at all levels, extending it beyond the roles of the CEO, the CRO, the RMC or the Audit & Risk Committee in this regard.

In addition, Treasury Regulation 27.2.1 places a responsibility on the CEO to ensure that risk assessment is conducted regularly to identify emerging risks of the HSRC. It further guides the CEO to ensure that a Risk Management Strategy which must include a fraud prevention plan is used to direct Internal Audit effort and priority, and to determine the skills required of managers and staff to improve controls and to manage these risks. In this regard, the HSRC ERM Strategy must be clearly communicated to all officials to ensure that the principles of risk management are incorporated into the language and culture of the institution.

This ERM Strategy seeks to effect the requirements of the PFMA while ensuring that risk management activities go beyond compliance.

7. Components of the ERM Strategy

The HSRC ERM Strategy comprises of volumes which are made up of various sections. The different volumes are as follows:

- Volume I: Risk Management Methodology
- Volume II: Anti-Corruption Strategy
- Volume III: Compliance Strategy
- Volume IV: Business Continuity Management Strategy

In addition to these volumes, templates, guidelines and forms shall be developed and added from time-to-time in order to ensure easy implementation of the Strategy.

8. Compliance with ERM Strategy

Each official shall be given a copy of the ERM Strategy and required to acknowledge in writing that he/she has read, understands the content and agrees to be bound by it.

9. Review of the ERM Strategy

This ERM Strategy shall be reviewed on an annual basis to ensure relevance to the HSRC business and compliance with new developments in risk management. The various volumes that form part of this Strategy shall be reviewed independently and individually whenever the need arises.

10. Approval

*This Enterprise Risk Management Strategy was approved by the HSRC Board and the Chief Executive Officer on **25 May 2011**.*



Dr Olive Shisana
Chief Executive Officer