



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# A STUDY ON THE EFFECTS OF THE TYPE OF RISK MANAGEMENT COMMITTEE CHAIRPERSONSHIP ON THE PERFORMANCE OF NATIONAL DEPARTMENTS

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## **PART A: EXECUTIVE SUMMARY**

### **1. PURPOSE OF THE STUDY**

Building on a preliminary study performed in the 2021/2022 financial year, this study assesses the effects of different types of risk management committee chairpersonship on the performance of national departments. While the Public Sector Risk Management Framework recommends an independent risk committee chairperson, in practice some departments' risk committee chairpersons are either: independent persons, an official of the top management corps or the Director-General, being the Accounting Officer, performing role him or herself.

The study interrogates whether the chairpersonship of risk management committees is an important determinant of their effectiveness, and by extension on the performance of the department. Audit outcomes and achievement of pre-determined objectives for the 2021/2022 financial year are used to assess whether departments having independent persons, members of top management, or the Accounting Officer, as chairperson of their risk committees, perform better.

The participation of the 32 departments out of 41 that were invited to participate in this study is highly appreciated. These departments are acknowledged in Annexure B.

### **2. BACKGROUND**

Risk management committees were introduced as a mechanism to support accounting officers to improve risk management, and by extension, the overall performance of their departments. It has been just over a decade since the introduction of this initiative. Notwithstanding that risk management committees is not a legislated requirement but a recommended best practice, the enthusiasm and considerable efforts of departments in implementing risk management committees is laudable.

Concerns regarding the sub-optimal performance of state institutions, including national departments, have been variously raised by oversight structures, civil society and the public. Since risk committees ought to be central to supporting institutional performance, the current state has naturally called the efficacy of risk committees into question. Various reasons are cited for the performance of risk committees, one of the main ones being the lack of certainty regarding the ideal risk committee structure and its organisational fit.

### **3. LEGISLATIVE MANDATE AND BEST PRACTICE FRAMEWORKS**

The Public Finance Management Act (PFMA), under section 38(1)(a)(i) requires that the accounting officer for a department must ensure that that department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The Public Sector Risk Management Framework was published in 2010. It is a guidance framework and a product of intensive research on best local and international risk management practices in public sector environments. In the Framework, a risk management committee is defined as ***a committee appointed by the Accounting Officer to review the Institution's system of risk management.*** Chapter 13 of the Framework, which sets out the functions of the Risk Management Committee, is included herein as Annexure C. Paragraph 24 (3) of the Framework recommends that *“the chairperson of the Risk Management Committee should be an independent external person, appointed by the Accounting Officer / Authority.”*

#### **4. FOCUS OF THE STUDY**

The scope of the study is national government departments. The study aims to determine whether independent persons (having no contract of employment with the department), or persons from within the institutions' senior management ranks, are more effective chairpersons of risk management committees.

The study was performed in two distinct steps. The first step was executed through a questionnaire soliciting the departments' inputs using a five-point Likert scale. The questionnaire is included herein as Annexure A.

The second step involved examining the Auditor-General reports on the departments' annual financial statements and performance against pre-determined objectives for the 2021/22 financial year to test any discernible difference in performance between departments that have independent risk committee chairpersons versus those whose risk committees are chaired by either an official of the top management corps or the Director-General of the department.

#### **5. LIMITATIONS OF STUDY**

Multiple factors influence the effectiveness of risk management committees. The focus of this study is limited only to the extent that the aforementioned modalities of chairpersonship have on the effectiveness of the committees. The study focused only on national departments, of which just 32 out of 41 (78%) have participated.

In hindsight, analysis of data for just one financial cycle, the 2021/2022 financial year, does not provide strong evidence. It is envisaged that the time series should be expanded over a minimum of three years to reveal more meaningful trends.

Expansion of the study across state institutions will assist with the emergence of a clearer picture of whether risk committees actually enhance the performance of institutions, and what configuration does that best.

## 6. KEY FINDINGS

It is noted that the respondents in this study are in the most part highly experienced in risk management, with only 3% having less than two years of experience in the field. 100% of departments responding to this study have risk committees in place. 84% of these have independent chairpersons, thus indicating a fairly strong support for the recommendation of the Public Sector Risk Management Framework. 13% of departments have chairpersons from the top management of the department and one has the Accounting Officer as chairperson.

Among 84% of respondents, the dominant perception is that an independent chairperson is most effective, while 11% are neutral and 5% do not believe this to be the case.

While appreciating the limitation of interrogating data for just one year as expressed in paragraph 5, it is worth noting the following. If the one department where the Accounting Officer is the chairperson of the risk committee is treated as an outlier, the data for the 2021/2022 financial year shows that departments with independent risk committee chairpersons outperform departments with top management as risk committee chairpersons in both financial audit outcomes (81% vs 75%) and performance against pre-determined objectives (52% vs 25%). Refer to the table below.

Type of Chairperson	Good Audit Outcomes (Clean & Unqualified opinions)	Performance against pre-determined objectives
Independent	22/27 departments - (81%)	14/27 departments - (52%)
Top management	3/4 departments - (75%)	1/4 departments - (25%)
Accounting Officer	1/1 department - (100%)	1/1 department - (100%)

While the 2021/2022 financial year data seemingly supports the dominant perception that independent chairpersons are more effective, the limited time series renders the evidence weak, and the results should be treated with caution. There is a need to expand the analysis of audit outcomes and performance against pre-determined objectives over a longer time series to obtain stronger evidence.

## PART B: RESEARCH AND DATA ANALYSIS

### 7. DATA PRESENTATION AND ANALYSIS

Research questions were divided into two segments. The first segment sought the respondents' gender, designations, work experience and current Risk Management Committee Chairperson status. Table 1 below presents the results. A narrative follows thereafter.

*Table 1 - Classification*

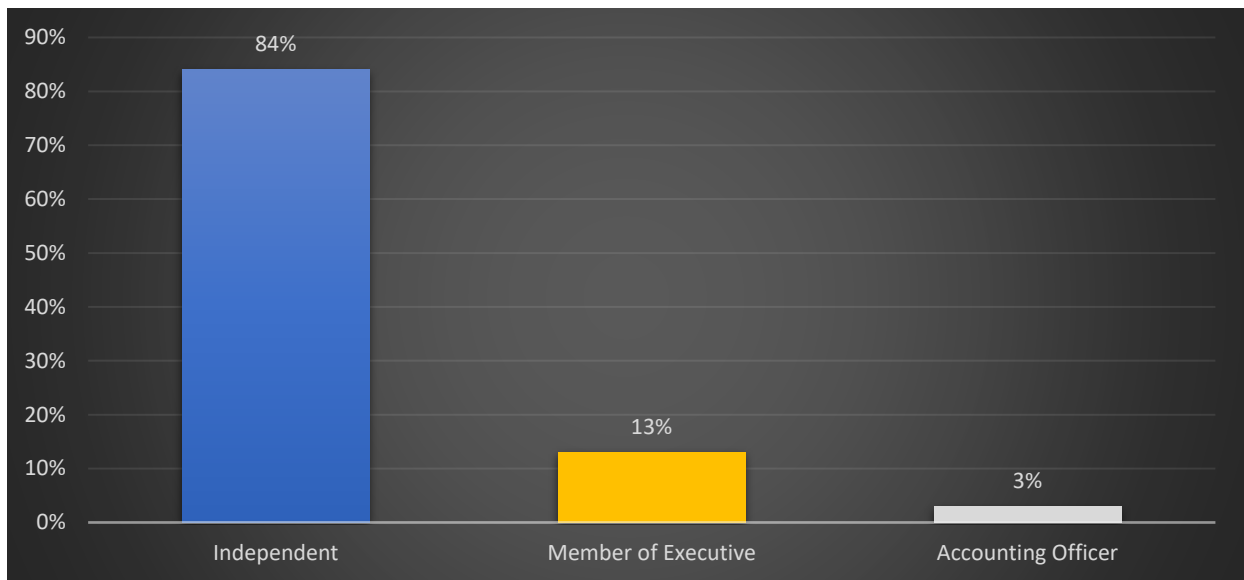
No.	CLASSIFICATION	RESPONSE					
		Female		Male		Other	
1.	GENDER	58%		37%		5%	
2.	DESIGNATION	Deputy Dir-Gen	Chief Director	Director	Deputy Director	Assistant Director	Other
		0	16%	42%	39%	3%	0
3.	GENERAL WORK EXPERIENCE	Less than 6 months	6 – 23 months	2 – 5 years	6 – 10 years	11 – 15 years	> 15 years
		0	0	0	0	24%	76%
4.	RISK MANAGEMENT WORK EXPERIENCE	Less than 6 months	6 – 23 months	2 – 5 years	6 – 10 years	11 – 15 years	> 15 years
		0	3%	8%	26%	47%	16%
5.	CURRENT RMC CHAIR	Independent person		Accounting Officer		A member of the department's executive	
		84%		3%		13%	

The majority of respondents were female (58%), 37% of respondents were male and 5% did not disclose their gender.

58% of respondents were senior management, 39% middle management and 3% constituted lower management and other. 100% of respondents had more than 10 years of general work experience, of which 76% had more than 10 years of risk management experience.

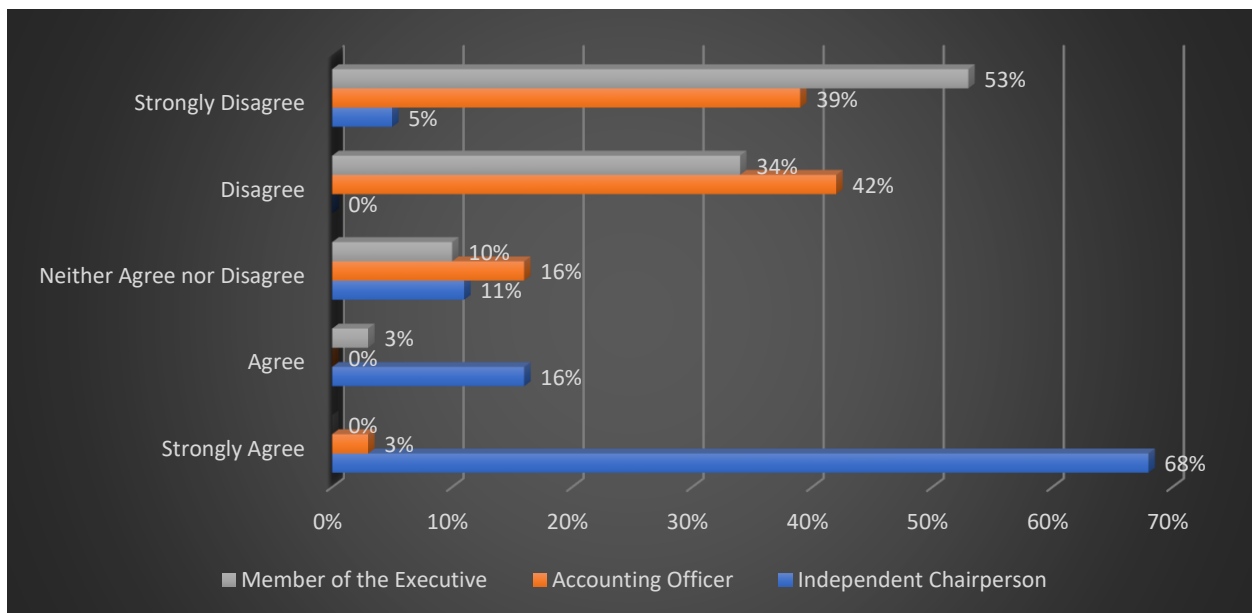
The second segment sought to test the most effective functioning of Risk Management Committees, in particular their chairpersonship. This was done by posing thirteen (13) questions for respondents' views. The following graph represents the breakdown of the different types of Chairpersons in departments during the 2021/22 financial year.

*Graph 1 – Category of Risk Management Committee Chairperson*



All departments that responded had Risk Management Committees in place, of which 84% had independent chairpersons compared to 13% that had a chairperson from the department’s top management rank. Only 3% of the participants had Accounting Officers chairing the Risk Management Committees.

*Graph 2 – The Most Effective Chairperson of the Risk Management Committee*

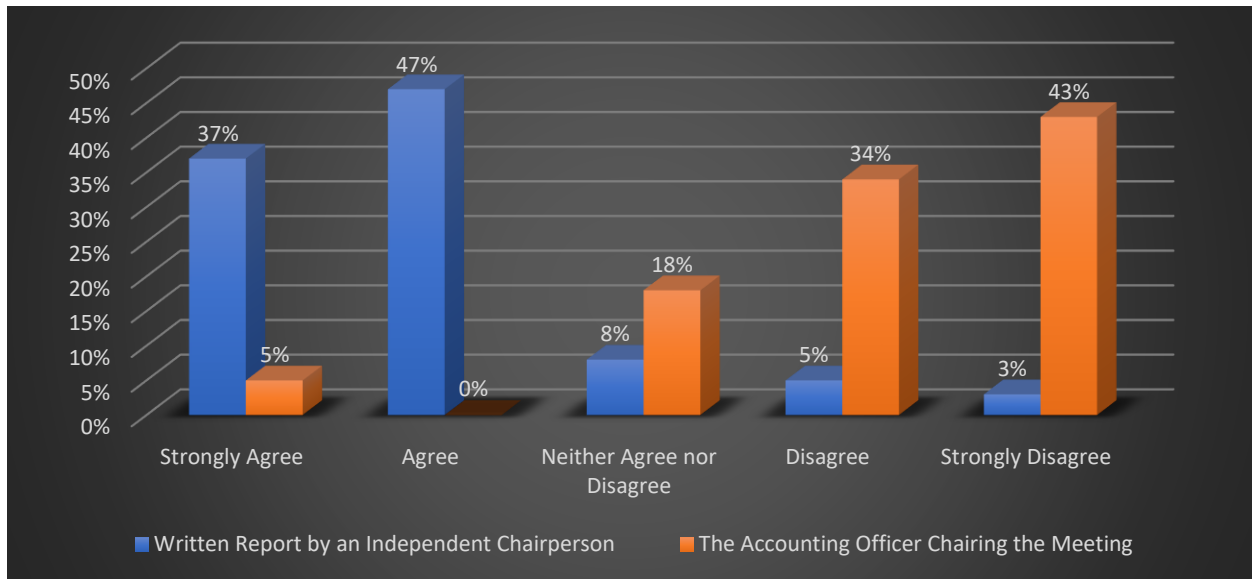


Based on the collective responses under the strongly agree and agree categories, 84% of respondents favour an independent chairperson, 11% were neutral on this issue, while 5% do not believe that an independent person makes the most effective chairperson.

On the other hand, 3% of respondents are of the view that the Accounting Officer makes the most effective chairperson, 16% are neutral on this issue and 81% disagree.

Finally, 3% of respondents agree that a member of the departments’ top management makes the most effective chairperson, 10% are neutral and 87% disagree.

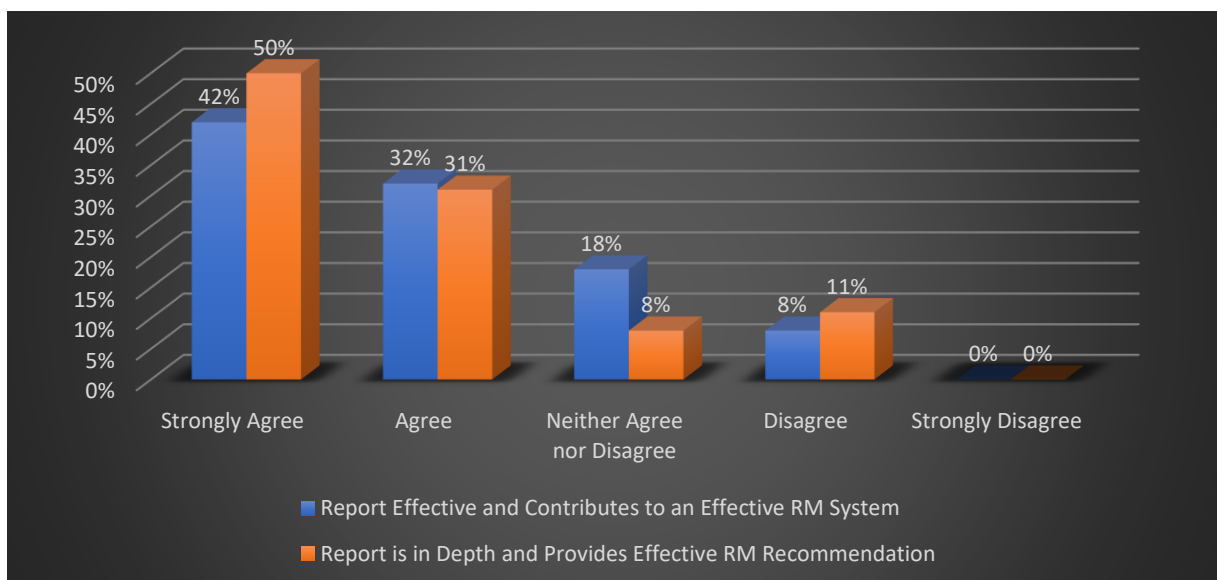
*Graph 3 – The Most Effective Method of Risk Management Communication to the Accounting Officer*



84% of respondents felt that the most effective method to communicate with the Accounting Officer is a written report with recommendations from an Independent Chairperson, 8% neither agree nor disagree with this notion, while 8% disagree.

On the other hand, 5% of respondents are of the view that communication is best served if the Accounting Officer chairs the risk committee him or herself. 18% neither agree nor disagree with this notion, while 77% disagree that the Accounting Officer chairing the risk committee is also an effective mode of communication.

*Graph 4 – Independent Chairperson Reporting*

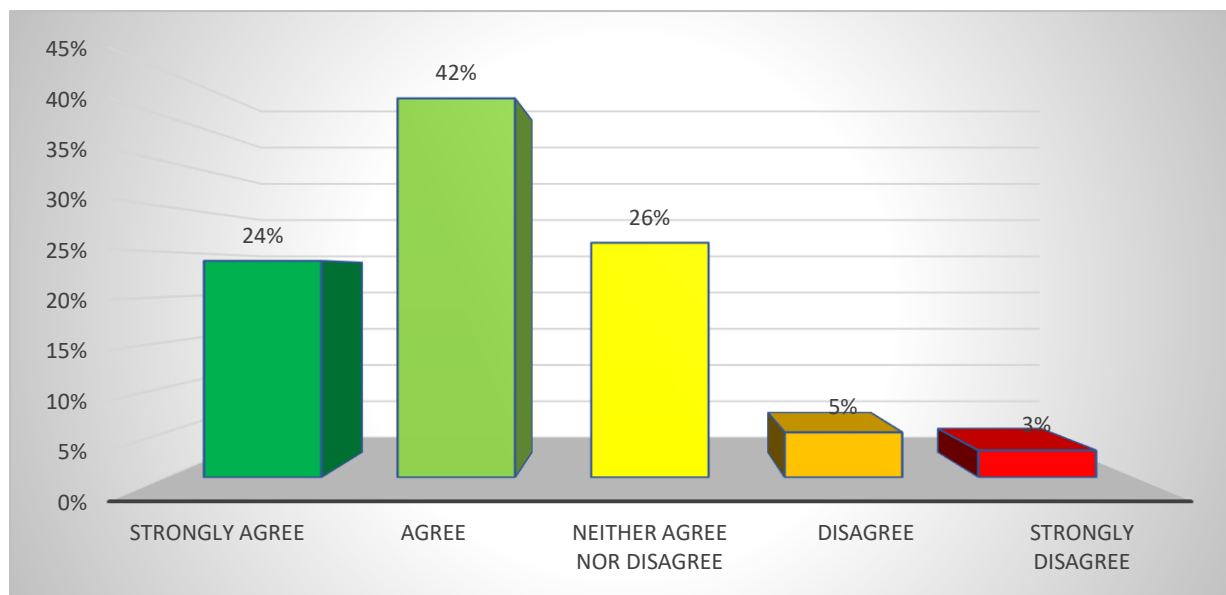


74% of respondents believe that reports from an independent chairperson have proven to be effective in improving risk management within the department, while 18% have a neutral opinion and 8% do not believe that the chairpersons’ reports make a meaningful difference. On the question of whether the independent chairpersons’ reports normally provide in depth and effective recommendations to the Accounting Officer, 81% are of the view that it does, 8% have neutral



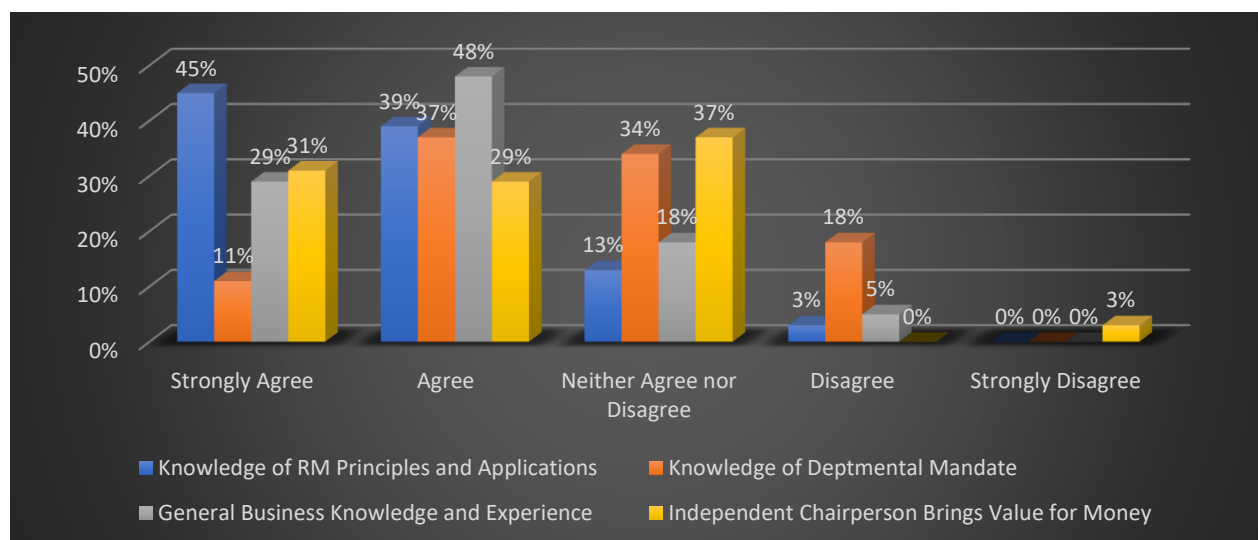
views and 11% do not believe that the reports provided to the Accounting Officer are useful when it comes to providing useful recommendations.

*Graph 5 – Appointment Process for an Independent Chairperson is Efficient*



On the question of whether the process for appointing independent chairpersons is efficient and effective, and results in an appointment of the appropriate person, the survey shows that 66% of the respondents agree that the processes for appointing an independent chairperson are effective and results in the appointment of a competent person, while 26% are unsure and 8% believe that there is room for improvement.

*Graph 6 – Calibre of an Independent Chairperson*



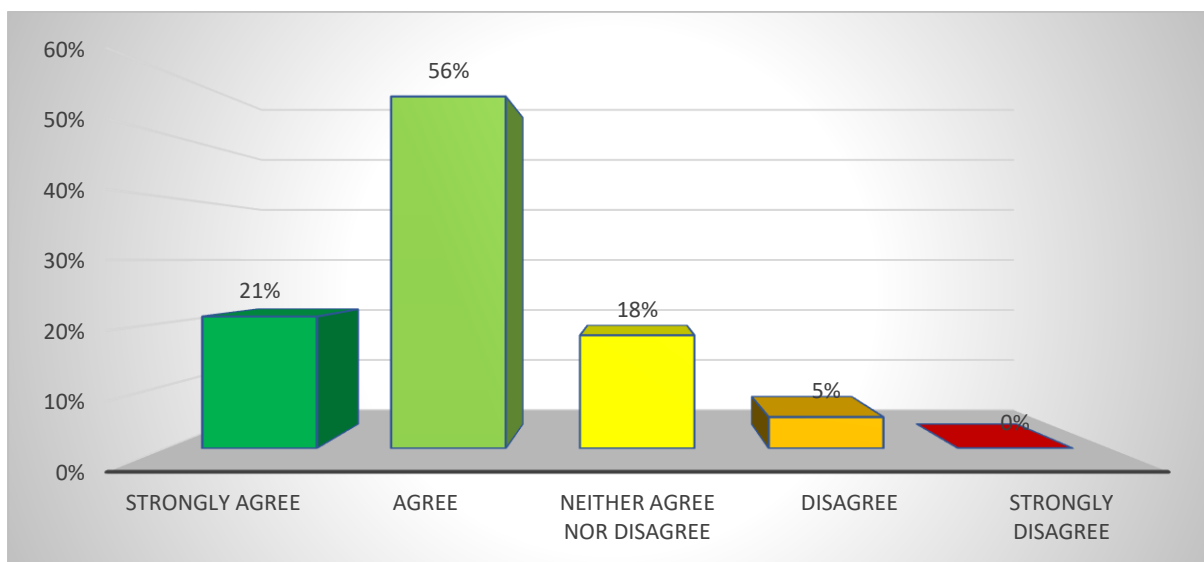
Graph 6 presents opinions regarding the competencies and value-add of independent chairpersons. It shows that respondents are of the view that:

- 84% of independent chairpersons possess the required competency for risk management principles and their application, while 13% neither agree nor disagree on this point and 3% are of the opinion that the chairpersons don't have the expected level of competency.

- 48% opine that independent chairpersons have sufficient knowledge of the departments mandate and nuances associated therewith, 34% are neutral on this issue, while 18% do not believe that the independent chairpersons have sufficient knowledge in this regard.
- regarding general business knowledge and experience, 77% of respondents view independent chairpersons as competent regarding these criteria, 18% are undecided, while 5% are of the view that the chairpersons lack these competencies.
- on the question of whether the independent chairperson bring value for money, only 60% are of the opinion that they do, 37% are neutral on this view and the remainder 3% clearly do not believe that they bring value for money.

The relatively low positive opinion on these criteria overall begs the question of whether risk committees can be effective under such leadership. The current available data does not assist us to delve deeper to find the answer. Expansion of the time series over at least three years should assist in obtaining a better understanding of this.

*Graph 7 – Measuring the Effectiveness of an Independent Chairperson*



The graph shows that the majority (77%) of respondents believe that they can measure the effectiveness of an independent chairperson, 18% neither agree nor disagree and while 5% find it difficult to measure the effectiveness of an independent chairperson.

*Graph 8 – Type of Chairperson vs. Audit Opinion of Departments for the 2021/22 financial year*



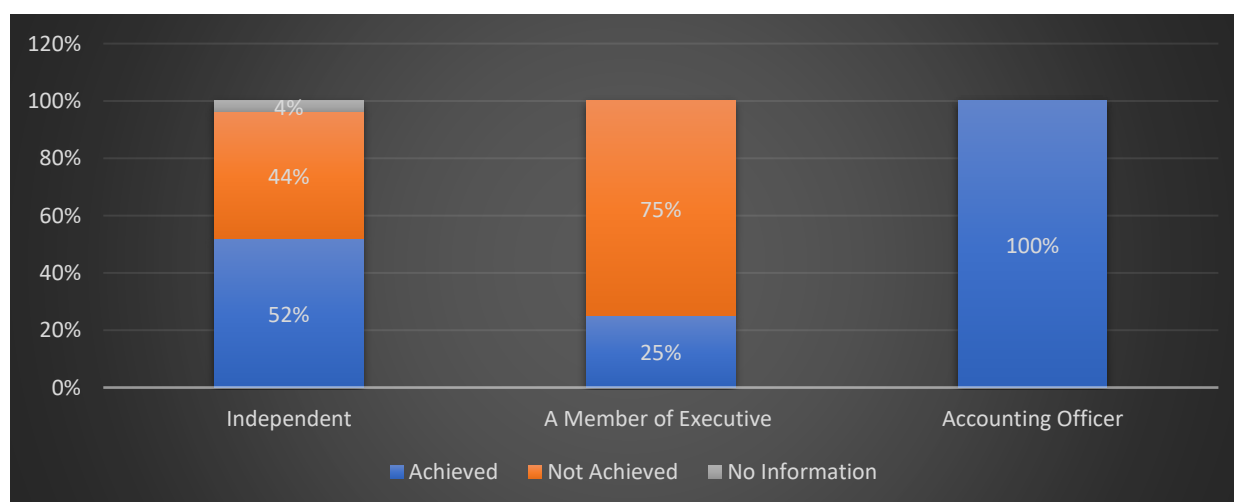
Graph 8 reflects the link between the type of Risk Management Committee chairperson and the independent audit opinion of the Auditor-General for the 2021/22 annual financial statements, as follows:

- In departments that have independent chairpersons (27/32 departments) –
  - o 22% (6/27) had clean audit opinions,
  - o 59% (16/27) had unqualified with findings audit opinion,
  - o 15% (4/27) had qualified audit opinions, and
  - o for the remaining 4% (1/27), the audit was not yet finalised at the reporting date.
  - o no departments had adverse or disclaimer audit opinions.
- In departments where the chairperson was a member of top management (4/32 departments)
  - o no departments had clean audit opinions,
  - o 75% (3/4) had unqualified with findings audit opinions,
  - o 25% (1/4) had qualified audit opinions,
  - o no departments had adverse or disclaimer audit opinions.
- Only one out of the 32 departments had the Accounting Officer chairing the Risk Management Committee, and that department had a clean audit opinion.

The majority of departments with independent chairpersons received positive audit outcomes as represented by clean and unqualified audits, being 81% of the total. For departments with a member of top management as the chairperson, 75% achieved unqualified audit opinions with none achieving clean audits. The 1 department where the chairperson is the Accounting Officer achieved a clean audit.

These observations point to a positive correlation between independent risk committee chairpersons and audit outcomes.

*Graph 9 – Type of Chairperson vs. Departments performance against pre-determined objectives for the 2021/22 financial year*



- In departments that have independent chairpersons (27/32 departments) –
  - o 52% (14/27) had achieved their key performance indicators,

- 44% (12/27) had not achieved their key performance indicators, and
- 4% (1/27) is unknown. This relates to the one department whose final audit report was outstanding.
- In departments where the chairperson was a member of top management (4/32 departments)
  - 25% (1/4) had achieved their key performance indicators, and
  - 75% (3/4) had not achieved their key performance indicators.
- Only one out of the 32 departments had an Accounting Officer chairing the Risk Management Committee, and the department had achieved 100% of its key performance indicators.

## **8. CONCLUSION**

The study confirms that the majority of risk management professionals, who are considerably experienced in the field, believe that an independent chairperson is best suited to chair a Risk Management Committee. This is in line with the Public Sector Risk Management Framework, which advocates for an independent chairperson.

Due to the small number of departments analysed and the limited time series of just one financial year that was considered, the evidence obtained is weak. While the 2021/22 years data suggests that independent chairpersons of risk committees perform better than chairpersons from the top management corps, this should be treated with caution. There is a need to expand the analysis of audit outcomes and performance against pre-determined objectives over a longer time series to obtain stronger evidence.

# ANNEXURE A

## QUESTIONNAIRE

The purpose of this interview questionnaire is to ascertain which chairpersonship is the most effective and efficient for a Risk Management Committee to work, between an independent chairperson or an Accounting Officer.

*Directions: Please complete the information below by shading or highlighting the relevant box under the "response" column(s).*

No.	QUESTION	RESPONSE					
1.	What is your gender?	Female			Male		
2.	What is your current designation?	Deputy Director-General	Chief Director	Director	Deputy Director	Assistant Director	Other
3.	Who currently chairs your department's Risk Management Committee (RMC) meetings?	An independent chairperson		The Accounting Officer		A member of the department's executive	
4.	How many years of work experience do you have?	Less than 6 months	6 – 23 months	2 – 5 years	6 – 10 years	11 – 15 years	More than 15 years
5.	How many years of Risk Management experience do you have?	Less than 6 months	6 – 23 months	2 – 5 years	6 – 10 years	11 – 15 years	More than 15 years

*Directions: Please indicate your level of agreement or disagreement (according to your experience) with each of these statements by marking with an X on the block under the relevant rating.*

No.	FACETS	RATING SCALE 1-5				
		1 - Strongly Disagree	2 – Disagree	3 - Neither Agree nor Disagree	4- Agree	5 – Strongly Agree
1.	The most effective chairperson of a Risk Management Committee is an independent chairperson.					
2.	The most effective chairperson of a Risk Management Committee is the Accounting Officer (Director-General).					
3.	The most effective chairperson of a Risk Management Committee is a member of the executive.					
4.	Risk management information discussed at the Risk Management Committee is best received by the Accounting Officer from a written report from an independent chairperson.					
5.	Risk management information discussed at the Risk Management Committee is best received by the Accounting Officer directly from the meeting deliberations, chaired by himself/herself.					
6.	The report from an independent chairperson has proven to be effective and has improved the risk management system within the department.					
7.	The report from an independent chairperson normally provides in depth and effective recommendations on the					



## **ANNEXURE B**

### **DEPARTMENTS THAT PARTICIPATED IN THE STUDY**

1. Agriculture, Land Reform and Rural Development
2. Basic Education
3. Civilian Secretariat for Police Service
4. Communications and Digital Technologies
5. Corporative Governance and Traditional Affairs
6. Correctional Services
7. Defence
8. Employment and Labour
9. Forestry, Fisheries and the Environment
10. Government Communication and Information System (GCIS)
11. Health
12. Higher Education and Training
13. Home Affairs
14. Human Settlement
15. Independent Police Investigative Directorate (IPID)
16. International Relations and Corporation
17. Justice and Constitutional Development
18. Mineral Resources and Energy
19. National Treasury
20. Planning, Monitoring and Evaluation
21. Public Enterprise
22. Public Service and Administration
23. Public Works and Infrastructure
24. Science and Technology
25. South African Police Services
26. Sports, Arts and Culture
27. Statistics South Africa
28. Trade, Industry and Competition
29. Transport
30. The Presidency
31. Water and Sanitation
32. Women, Youth and Persons with Disabilities

## **ANNEXURE C**

### **CHAPTER 13 OF THE PUBLIC SECTOR RISK MANAGEMENT FRAMEWORK**

#### **FUNCTIONS OF RISK MANAGEMENT COMMITTEES**

##### **24. Functions of the Risk Management Committee –**

(1) The Risk Management Committee is appointed by the Accounting Officer / Authority to assist them to discharge their responsibilities for risk management.

(2) The membership of the Risk Management Committee should comprise both management and external members with the necessary blend of skills, competencies and attributes, including the following critical aspects:

- (a) an intimate understanding of the Institution's mandate and operations;
- (b) the ability to act independently and objectively in the interest of the Institution; and
- (c) a thorough knowledge of risk management principles and their application.

(3) The chairperson of the Risk Management Committee should be an independent external person, appointed by the Accounting Officer / Authority.

(4) The responsibilities of the Risk Management Committee should be formally defined in a charter approved by the Accounting Officer / Authority.

(5) In discharging its governance responsibilities relating to risk management, the Risk Management Committee should:

(a) review and recommend for the Approval of the Accounting Officer / Authority, the:

- (i) risk management policy;
- (ii) risk management strategy;
- (iii) risk management implementation plan;
- (iv) Institution's risk appetite, ensuring that limits are:
  - supported by a rigorous analysis and expert judgement;
  - expressed in the same values as the key performance indicators to which they apply;
  - set for all material risks individually, as well as in aggregate for particular categorisations of risk; and
  - consistent with the materiality and significance framework.

(v) Institution's risk tolerance, ensuring that limits are supported by a rigorous analysis and expert judgement of:

- the Institution's ability to withstand significant shocks; and
- the Institution's ability to recover financially and operationally from significant shocks.

(vi) Institution's risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeously and accurately identifying and assessing the Institution's risks.



- (b) evaluate the extent and effectiveness of integration of risk management within the Institution;
  - (c) assess implementation of the risk management policy and strategy (including plan);
  - (d) evaluate the effectiveness of the mitigating strategies implemented to address the material risks of the Institution.
  - (e) review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations.
  - (f) develop its own key performance indicators for approval by the Accounting Officer / Authority;
  - (g) interact with the Audit Committee to share information relating to material risks of the Institution; and
  - (h) provide timely and useful reports to the Accounting Officer / Authority on the state of risk management, together with accompanying recommendations to address any deficiencies identified by the Committee.
- (4) In instances where the scale, complexity and geographical dispersion of the Institution's activities dictate the need for the Risk Management Committee to work through subcommittees, the Risk Management Committee should ensure that:
- (a) approval is obtained from the Accounting Officer / Authority for the establishment of the sub-committees;
  - (b) the terms of reference of the sub-committees are aligned to that of the Risk Management Committee; and
  - (c) the Risk Management Committee exercises control over the functioning of the subcommittees.