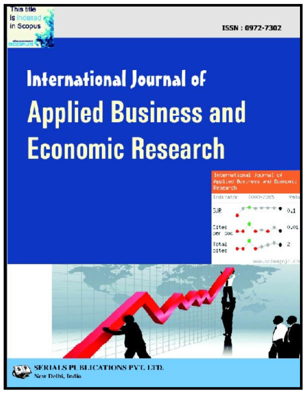

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A Survey on South Africa's Public Institutions' Risk Management Processes: A View from the Chief Risk Officer

Tankiso Moloi

University of Johannesburg, School of Accountancy, DRing, E-mail: smoloi@uj.ac.za, tankisomoloi@webmail.co.za

Abstract: In this paper, we set out to examine the risk management processes in South Africa's public institutions by gauging the Chief Risk Officers (CROs) views. A questionnaire containing questions around enhanced risk management processes was administered through the Office of Accountant General, the Risk Management Support Unit to all CROs in public institutions. One hundred questionnaires were received from respondents.

The main finding is that there are some public institutions, notable the National Government Departments as well as municipalities where the Accounting Officer does not include the undertaking in the annual report that the risks are actively managed. In public institutions, Accounting Officers are custodians of risk and therefore, their inability to make an undertaking that risks are actively managed leave unanswered questions such as whether they have uneasiness with disclosing such information to the public or perhaps whether they have total understanding of their responsibilities when it comes to risk. A similar pattern was also observed on the information relating to the disclosure of risks in the annual reports. Further, there are public institutions that do not conduct strategic risk assessments, in this regard and as per National Treasury's definition, an unwanted outcome of strategic nature, actual or potential would materialise without any realisation from those charged with service delivery and other performance objectives.

Keywords: National Treasury, Risk, Uncertainty, Public Institutions

JEL: M4

I. INTRODUCTION

There is consensus in the risk scholarship that the terms 'risk' and 'uncertainty' are not the same but work hand in hand. According to ISO 31000, risk is defined as the 'effect of uncertainty on the objective' (ISO, 2015). In other words, uncertainties could lead to the deviation from the expected. This is consistent with Truslow's (2003) description where it is indicated that 'risks should be viewed as the level of uncertainty surrounding an outcome'. From Truslow's perspective, it is this uncertainty that tend to create volatility in an organisation's income stream.

The King IV Report on Corporate Governance for South Africa (IoD, 2016) appear to have adopted the ISO 31000 (ISO, 2015) description of risk, wherein risk is said to be about the 'uncertainty of events including the likelihood of such events occurring and their effects, both positive and negative, on the achievement of the organisations objectives'. Herein this definition is embedded the ISO (2015) argument that risk on its own is a neutral concept i.e. it's neither positive nor negative. However, the effect of the uncertainties could either be positive or negative.

In the Public Sector Risk Management Framework, risk is described as an 'unwanted outcome, actual or potential, to the institution's service delivery and other performance objectives, caused by the presence of risk factor(s)' (National Treasury, 2010). The use of the words 'actual or potential' unwanted outcomes point to the presence of uncertainties which could lead to the deviation to the 'pursued wanted outcomes'.

Another example of risk and uncertainty working hand in hand is accounted for by Gifford (2010) where she point to the relationship between risk and uncertainty as a way of illustrating an underlying element of most economic theories of the entrepreneur. Accordingly, most economic theories accounting for the entrepreneur in a general equilibrium model move from the basis that the entrepreneur functions in the economy only if the environment is uncertain. The general equilibrium model then indicates that 'if all individuals in the economy had the perfect information, then all profit opportunities would be exploited instantaneously and there would be no further entrepreneurial role' (Gifford, 2010).

Smit (2012) also seem to agree that risk and uncertainty are connected elements. Accordingly, Smith 2012 argues that 'the management of risk and uncertainty is important for organisations as these two interconnected elements result in a cost known as the cost of risk, that is exerted because of the presence of uncertainty'. She then categorises the cost of risk both the losses as well as the uncertainty which could be reflected through the misallocation of resources (Smit, 2012).

For Holton (2004), to understand the terms risk and uncertainty, it is important to have two ingredients for the risk to exist. In this regard, Holton (2004) explains that the first ingredient relates to the uncertainty about the potential outcomes from an experiment and whilst the second ingredient is that the outcomes have to matter in terms of providing utility.

As a means of a demonstration, Holton (2004) uses the example of a person that jumps out of an airplane. In this example, Holton (2004) explains that 'a person jumping out of an airplane without a parachute faces no risk since they will be certain of death (in other words, there is no uncertainty)'. Simple, using the definitions and descriptions given above, it is clear that uncertainty is a necessary condition for the risk to exist.

Having clarified the fact that uncertainty is a necessary condition for the risk to exist, it can then be argued that the concept of uncertainty is what the risk management process needs to manage. In the Chapter that is entitled 'Motives for formal risk management process', Chapman and Ward (2003) introduces the concept of uncertainty management. They indicate that the uncertainty management process is 'concerned with understanding where and why uncertainty is important and where it is not'. For this understanding to take place, a formal risk management process needs to be adopted.

In 2010, National Treasury formalised the adoption of a formal risk management process in South Africa's public sector by introducing the Public Sector Risk Management Framework (PSRMF) to make risk management an integral part of financial management. The main aim of the framework is said that it is 'to assist accounting officers to maintain efficient and effective system of internal controls in public service institutions through the process of identifying, assessing and managing risks' (National Treasury, 2010).

In defining risk management, National Treasury (2010) indicates that it is 'a systematic and formalised process to identify, assess, manage and monitor risks'. It is noted that there is an agreement between National Treasury (2010) and Chapman and Ward (2003) with regard to the formal process. It is however noted that even though there is a connotation of uncertainty in the National Treasury's definition of risk as pointed out earlier, the formalised process as envisaged by the PSRMF does not seem to take into account the concept of uncertainty.

The fact that National Treasury (2010) does not seem to have taken into account the concept of uncertainty even though it was implied in the description of risk, admittedly could result in the defined systematic and formalised process to identify, assess, manage and monitor risks being on the unwanted outcomes than the uncertainty which it has been argued earlier that it is the necessary condition for the risk to exist.

Having argued against the description of risk management as proposed by National Treasury, it is acknowledged here that the argument does not eliminate the fact that they have highlighted the need to have a formalised process around risk management which is important for the purpose of this paper as its main aim is to examine the risk management processes in South Africa's public institutions by gauging the Chief Risk Officers (CROs) views.

The main limitation of this paper is that it used the questionnaire to gauge the CROs views on risk management processes in South Africa's public institutions. Had the process of gathering data had been possible, they would have been an opportunity to ask for further clarification and derive more information. Of more than 700 public institutions (National Government Departments, Provincial Government Departments, Municipalities and Public Entities), only one hundred CROs responded and therefore; the results of this study should be interpreted in this context.

The rest of this paper is demarcated as follows: Section II briefly outline the review of the related literature, which is followed by the research process in Section III. In section IV obtained results are presented and interpreted and the section V provides conclusion and recommendations.

II. RELATED LITERATURE

The disclosure of risk management information which takes into account the risk management processes applied in South Africa's public institutions has been benchmarked before (Moloi, 2016a, Moloi 2016b). In this regard, the information disclosed by selected public institutions was benchmarked against the requirements of the King III Report on Corporate Governance, this was before the publication of the King IV Report on Corporate Governance (IoD, 2009 and IoD, 2016) as well as the Public Sector Risk Management Framework (National Treasury 2010). The findings around these studies were that selected South African public institutions were not entirely transparent on their disclosures.

In describing the risk management, National Treasury (2010) refers to it as a 'systematic and formalised process to identify, assess, manage and monitor risks'. This seem to describe the process that is followed in risk management. For instance, risk management is described by ISO 73 Guide as 'coordinated activities to direct and control an organization with regard to risk'. The difference between the two is that in describing risk management, ISO Guide 73 does not name the processes that are involved (ISO, 2009).

For ISO Guide 73, it is not the risk management, but rather, the risk management process that is a 'systematic application of management policies, procedures and practices to the tasks of communicating, consulting, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risk' (ISO, 2009).

Even though the ISO standards as well as the PSRMF do not explicitly indicate that risk management process involves a series of steps that needs to be undertaken, it is clear from the respective sequence which indicates among other things communicating, consulting, establishing the context, identifying, analysing, evaluating, treating, monitoring and reviewing risk that certain steps need to be followed.

In his presentation to the Arab Academy for Banking and Financial Sciences, Kanona (2007) acknowledges that 'the risk management process consists of a series of steps that, when undertaken in sequence, enable continual improvement in decision-making'. The series of steps that Kanona (2007) indicate that they need to be taken in a sequence appear to have been adopted from ISO 31000. It is also observed that these steps are be consistent to the steps proposed and followed in the risk management process by other authors (see National Treasury, 2010; Kanona, 2007; Young, 2006; Andersen & Terp, 2006 and The Financial Committee of the Institute of Chartered Accountants in England and Wales, 2002) and they include:

Step 1. Communication and consultation.

Step 2. Establishment of both the internal and external context.

Step 3. Identification of risks.

Step 4. Analysis of risks.

Step 5. Evaluation of risks.

Step 6. Treatment of risks.

Step 7. Monitoring and review.

In line with the steps above, and using these steps in a holistic organisational manner, South Africa's public institutions CROs were required to reflect and indicate:

(1) Whether their audited annual reports contained an undertaking by the Accounting Officer that the risks that have been identified by an institution are actively managed;

(2) Whether their institution has undertaken the strategic risk assessment process in the previous year;

(3) Whether their institution had disclosed, in their annual reports, the nature and the description of risks they faced;

(4) Whether the institutional risks had moved or remained the same in the two reporting cycles;

(5) Whether their organisation had the risk management policies in place, including the frameworks, procedures and practices;

(6) Whether the risk management policies, frameworks, procedures and practices are communicated throughout the institution;

(7) The mode of communicating risk management policies, frameworks, procedures and practices throughout the institution;

(8) Indicate if their policies, frameworks, procedures and practices were subjected to an audit;

(9) The body that conducts an audit on their policies, frameworks, procedures and practices;

(10) If there were findings that they had been asked to address by the internal audit; and

(11) If there were findings that they had been asked to address by the external audit (Auditor General-AGSA).

III. RESEARCH PROCESS

The questionnaire was sent to all CROs in the public institutions through the National Treasury, Office of Accountant-General, Risk Management Support Unit. As indicated above, this part of the questionnaire contained questions on the holistic risk management process, which included questions on whether their audited annual reports contained an undertaking by the Accounting Officer that the risks that have been identified by an institution are actively managed; whether their institution has undertaken the strategic risk assessment process in the previous year; whether their institution had disclosed, in their annual reports, the nature and the description of risks they faced; whether the institutional risks had moved or remained the same in the two reporting cycles; whether their organisation had the risk management policies in place, including the frameworks, procedures and practices; whether the risk management policies, frameworks, procedures and practices are communicated throughout the institution; the mode of communicating risk management policies, frameworks, procedures and practices throughout the institution; indications if their policies, frameworks, procedures and practices were subjected to an audit; the body that conducts an audit on their policies, frameworks, procedures and practices; whether there were findings that they had been asked to address by the internal audit; and whether there were findings that they had been asked to address by the external audit (Auditor General- AGSA).

The survey was distributed in July 2016. Respondents were given three months to complete the survey. There were one hundred responses that were received through the Office of Accountant General, Risk Management Support Unit. These responses were from the 12 CROs in National Government Departments, forty two (42) CROs in Public Entities, thirty (30) CROs in Provincial Government Departments and sixteen (16) CROs from municipalities.

Obtained responses were analysed using the SPSS software to generate the descriptive statistics that is tabulated and presented in section IV below.

IV. RESEARCH FINDINGS AND INTERPRETATION

Finding I - Undertaking By Accounting Officers That Risks Are Managed

Table 1 below reflect the CROs responses on whether their audited annual reports contained an undertaking by the Accounting Officer that the risks that have been identified by an institution are actively managed. As can be noted in Table 1 above, majority of respondents indicated that their annual reports contained an undertaking from their respective Accounting Officers that risks are actively managed. There are instances where respondents indicated that their annual reports did not contain undertakings from their respective Accounting Officers that risks were managed i.e. two (2) NGDs, four (4) Public Entities, two (2) PGDs and one (1) municipality.

Table 1
Undertaking By Accounting Officers in the Annual Report that Risks Are Managed

Has your organisation included an undertaking, in its annual report, from the Accounting Officer that risks are managed?	*Option*	*National government departments*	*Public entities*	*Provincial departments*	*Municipalities*	*Total*
	Yes	9	38	28	14	89
	No	2	4	2	1	9

Finding II – Conducting the Strategic Risk Assessments

To understand whether the process of strategy setting is linked to the strategic risk assessment, respondents were required to indicate whether their institution has undertaken the strategic risk assessment process in the previous year. Table 2 below reflect the results to this extent. Results indicate that the majority of respondents had conducted strategic risk assessments for the year. There were cases where respondents indicated that their institution had not undertaken the strategic risk assessment i.e. one (1) NGD and municipality respectively as well as two (2) Public Entities. This should be a concern to the senior executives of the institutions because the threats and/ opportunities to the strategic initiatives would not have been assessed which could result in the institution failing to achieve its objective.

Table 2
Strategic Risk Assessments

Has the organisation conducted a strategic risk assessment for the year?	*Option*	*National government departments*	*Public entities*	*Provincial departments*	*Municipalities*	*Total*
	Yes	11	40	30	14	95
	No	1	2	0	1	4

Finding III – Disclosure of Risks Faced by Public Institutions

With regard to Table 3 below, the question posed to respondents aimed at gauging the transparency and to the extent the accountability of measured institution with regards to the risks they faced. As such, respondents were required to indicate whether their institution had disclosed, in their annual reports, the nature and the description of risks they faced. Obtained results indicate that the majority of the surveyed institutions indicated that their organisation had included, in their annual report the description of risks they faced. There are circumstances where the risk faced by surveyed institutions were not included in their annual report, for instance; two (2) NGDs, three (3) Public Entities and one (1) municipality.

It is pointed out that ordinarily, the first point of engagement that is used by stakeholders for an in depth understanding of an institution, including successes and the challenges that it faces is the annual report. The non-disclosure of risks that the institutions faces poses a challenge to stakeholders with interest in the public service institutions. Much as the public service institutions report to parliament on an ongoing basis, the information contained in the annual report undergoes some form of review by the governance structures such as the National Treasury, Audit and Risk committees as well as the Auditor-General of South Africa which gives it integrity. Therefore, the non-disclosure of certain information poses a question as to whether the reporting institution is being transparent and whether those in charge have a willingness to account.

Table 3
Risks Faced By Public Institutions

Has the organisation included, in its annual report the description of risks it faces?	*Option*	*National government departments*	*Public entities*	*Provincial departments*	*Municipalities*	*Total*
	Yes	10	39	29	15	**93**
	No	2	3	1	0	**6**

Finding IV – Monitoring of Risk Movements

Respondents were requested to indicate whether the institutional risks had moved or remained the same in the two reporting cycles. Table 5 below indicate that thirty six (36) institutions indicated that their risks had increased compared to the previous cycle, whilst other thirty six (36) institutions indicated that their risks had decreased compared to the previous cycle. Twenty seven (27) institutions indicated that their risks had remained the same.

The fact that risks had moved (increased or decreased) in the majority of institutions indicate that there was a consistent form of assessing these risks. In institutions where the risks had decreased, it could be assumed that these were actively managed and that controls were actively monitored. In instances where risks had increased, there could have been a shift in the environment where the re-assessment of these risks resulted in their increase.

In instances where risks remained the same, it could be postulated that the controls embedded were of the long term. Further, it could be that risks and controls around them had not been consistently re-assessed. Should the latter statement be the case, there is a threat that the risks could materialise, resulting in the institution failing to reach its objective.

Finding V – Policies, Frameworks, Procedures and Practices

Respondent were required to indicate whether their organisation had the risk management policies in place, including the frameworks, procedures and practices. With regard to the risk management policies,

Table 4
Movement of Risks

Comparison of risks between the current cycle and the previous one, has the organisational risks moved?	*Option*	*National government departments*	*Public entities*	*Provincial departments*	*Municipalities*	*Total*
	Increased	6	15	10	5	36
	Decreased	2	14	13	7	36
	Remained the same	4	13	7	3	27

frameworks, procedures and practices, it is clear in Table 5 below that majority of surveyed organisations indicated that they had this in place. It was, however; noted that four institutions reported that they did not have risk management policies, frameworks, procedures and practices in place.

For institutions that have not crafted risk management policies, frameworks, procedures and practices, there would not be any reference point or guidance regarding the process of risks. The likelihood is that risk assessments will not be undertaken, if they are undertaken, the process will not be guided by any policy resulting in the non-accountability.

Table 5
Risk Management Policies, Frameworks, Procedures and Practices

Does the organisation have the risk management policy, framework, procedures and practices in place?	*Option*	*National government departments*	*Public entities*	*Provincial departments*	*Municipalities*	*Total*
	Yes	11	41	28	16	96
	No	1	1	2	0	4

Finding Vi – Communication of Applicable Policies, Frameworks, Procedures and Practices

Since the public service institution are encouraged to follow the Public Sector Risk Management Framework which promotes enterprise wide risk management, it is important that risk management policies, frameworks, procedures and practices are communicated throughout the institution.

Table 6 below point to the fact that the majority of surveyed institutions indicated that the risk management policy, framework, procedures and practices had been communicated throughout the organisation. There are instances where institutions indicated that the risk management policy, framework, procedures and practices had not been communicated throughout the organisation, for instance; six (6) Public Entities, two (2) PGDs and three (3) municipalities.

Table 6
Communication of Risk Management Policies, Frameworks, Procedures and Practices

Has the risk management policy, framework, procedures and practices been communicated throughout the organisation?	*Option*	*National government departments*	*Public entities*	*Provincial departments*	*Municipalities*	*Total*
	Yes	12	36	28	12	88
	No	0	6	2	3	11

Finding VII – Chosen Mode of Communicating Applicable Policies, Frameworks, Procedures And Practices

In Table 5 above, it was indicated that it was important that risk management policies, frameworks, procedures and practices are communicated throughout the institution. Respondents were required to indicate their mode of communicating risk management policies, frameworks, procedures and practices throughout the institution.

Obtained results, in Table 7 below indicate that the preferred mode of communicating the policies, frameworks, procedures and practices appear to be emails, followed by risk assessment meetings and the intranet. The least frequent mode of communicating policies, frameworks, procedures and practices appear to be the policy awareness sessions and inductions

Table 7
Mode of Communicating Risk Management Policy, Framework, Procedures and Practices

What was the mode of communicating the risk management policy was etc.?	*Mode of communication*	*National government departments*	*Public entities*	*Provincial departments*	*Total*
	Email	5	5	12	22
	Intranet	2	5	6	13
	During risk assessment	1	9	7	17
	During policy awareness	0	1	1	2
	Inductions	2	1	0	3
	Other	3	14	10	27

Finding Viii – Audit of Applicable Risk Management Policies, Frameworks, Procedures and Practices

Respondents were required to indicate if their policies, frameworks, procedures and practices were subjected to an audit. It is the view of the researcher that subjecting this to an objective process would assist in the identification of gaps in the process.

Obtained results presented in Table 8 below indicates that the majority of surveyed institutions indicated that their risk management policy, framework, procedures and practices were subjected to an audit. There are institutions that indicated that their risk management policy, framework, procedures and practices were not subject to an audit, for instance, one (1) NGD, four (4) Public Entities and one (1) PGD and municipality respectively.

Table 8
Auditing Risk Management Policies, Frameworks, Procedures and Practices

Is the risk management policy, framework, procedures and practices subject to an audit?	*Option*	*National government departments*	*Public entities*	*Provincial departments*	*Municipalities*	*Total*
	Yes	10	38	28	14	90
	No	1	4	1	1	7

Finding VIII (Cont.) – Audit of Applicable Risk Management Policies, Frameworks, Procedures and Practices

As a matter of understanding the nature of the body that audits public service institutions policies, frameworks, procedures and practices, respondents were required to indicate the body that conducts an audit on their policies, frameworks, procedures and practices.

Obtained results presented in Table 8.1 below indicates that the audits of risk management policy, framework, procedures and practices are mostly conducted by internal audit. Some surveyed institutions indicated that their risk management policy, framework, procedures and practices were audited by the Auditor- General (AGSA).

Table 8.1
Auditing Risk Management Policy, Framework, Policies, Procedures And Practices

Who conducts the audit	*Auditor*	*National government departments*	*Public entities*	*Provincial departments*	*Total*
	Internal audit	8	22	22	52
	AGSA	6	15	9	30
	Other	1	0	5	6

Finding VIII (Cont.) – Audit of Applicable Risk Management Policies, Frameworks, Procedures and Practices

To understand if there were any issues raised, specifically by the internal audit on the public institution's risk management policy, framework, procedures and practices, respondents were asked to indicate if there were findings that they had been asked to address by the internal audit.

Results indicate presented in Table 8.2 below indicate that fifty seven (57) surveyed institutions indicated that the internal audit had not raised any finding on their risk management policy, framework, procedures and practices. Forty (40) surveyed institutions indicated that the internal audit had raised findings on their risk management policy, framework, procedures and practices. The typical findings raised by internal audit on the risk management policy, framework, procedures and practices are as follows:

- Appetite and tolerance levels not clearly defined,
- Inadequate monitoring of risks,
- There are gaps in RM policies,
- The organisation has inadequate ERM framework,
- There are no procedures for aggregating risks,
- There is no ownership of the RM policy,
- Not all risks are raised,
- Exposures not reviewed,
- Opportunities not raised,
- Controls not correctly phrased,
- No awareness,
- No independent chair, and
- No implementation of the ERM policy.

Table 8.2
Auditing Risk Management Policies, Frameworks, Procedures and Practices

Did the internal audit make findings on the risk management policy, framework, procedures and practices?	*Option*	*National government departments*	*Public entities*	*Provincial departments*	*Municipalities*	*Total*
	Yes	5	18	11	6	40
	No	7	22	18	10	57

Finding VIII (Cont.) – Audit of Applicable Risk Management Policies, Frameworks, Procedures and Practices

With regard to the audit conducted by the Auditor-General on the on the public institution's risk management policy, framework, procedures and practices, respondents were asked to indicate if there were findings that they had been asked to address by AGSA.

Obtained results presented in Table 8.3 below indicate that there were fifteen (15) surveyed institutions that indicated that the Auditor-General had made findings on their risk management policy, framework, procedures and practices. Seventy six (76) other surveyed institutions indicated that the Auditor-General had not made findings on their risk management policy, framework, procedures and practices ineffective risk management. The typical findings raised by internal audit on the risk management policy, framework, procedures and practices are as follows:

- Ineffective risk management committees,
- Reviews and risk assessments not conducted regularly,
- No risk assessment workshops held,
- Controls not effective,
- Controls not specific,
- RM policies not approved by relevant structures,
- No risk management policy in place
- No risk management activities performed in the prior year,
- Risk assessments not conducted timeously, and
- Non-approval of RM strategy.

Table 8.3
Auditing Risk Management Policies, Frameworks, Procedures and Practices

Did the Auditor General make findings on the risk management policies, framework, procedures and practices?	*Option*	*National government departments*	*Public entities*	*Provincial departments*	*Municipalities*	*Total*
	Yes	2	8	1	4	15
	No	9	31	25	11	76

V. CONCLUSION

This paper set out to examine the risk management processes in South Africa's public institutions by gauging the Chief Risk Officers (CROs) views. To achieve this objective, related academic and professional literature were examined. At a holistic level, it was found that there is consensus amongst professionals and scholars on the series of steps that are involved in risk management process and this involves the communication and consultation, establishment of both the internal and external context, identification of risks, analysis of risks, evaluation of risks, the treatment of risks as well as monitoring and reviewing of risks on an ongoing basis.

To examine the risk management process in South Africa's public institutions by gauging the CROs, a questionnaire containing questions around enhanced risk management processes was administered through the Office of Accountant General, the Risk Management Support Unit to all CROs in public institutions. There were one hundred questionnaires that were received from respondents.

The findings are that there are some public institutions, notable in National Government Departments as well as municipalities where the Accounting Officer does not include the undertaking in the annual report that the risks are actively managed. In public institutions, Accounting Officers are custodians of risk and therefore, their inability to make an undertaking that risks are actively managed leave unanswered questions such as whether they have uneasiness with disclosing such information to the public or perhaps whether they have total understanding of their responsibilities when it comes to risk. A similar pattern was also observed on the information relating to the disclosure of risks in the annual reports.

Obtained results point to the fact that a significant number of public institutions may not have identified the right risks or formulated the right controls or perhaps that risks are not assessed on an ongoing basis. This postulation is derived from the results that indicates that there hadn't been any movement of risks between the previous and the current period. Of further concern is that there are public institutions that do not conduct strategic risk assessments, in this regard and as per National Treasury's definition, an unwanted outcome of strategic nature, actual or potential would materialise without any realisation from those charged with service delivery and other performance objectives.

There are institutions that have not formulated risk management policies, frameworks, procedures and practices. Some of those that have formulated these documents, this seem to have been kept within their own domain i.e. it has not been communicated throughout the organisation. Clearly, these organisations will find obstacles in embedding enterprise risk management.

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