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APTITUDE AND POSITIONING OF CHIEF RISK OFFICERS IN SOUTH AFRICA'S PUBLIC INSTITUTIONS

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ABSTRACT

This paper places the CROs proficiencies and positioning in a wider debate surrounding the weaknesses in internal controls in South Africa's public institutions. It uses and pays particular attention to the qualifications and professional membership as measures of proficiency as well as the remuneration scale, and the reporting lines as measures of positioning.

With regard to the proficiency, it was noted that the majority of CROs had the post High School Qualifications. However, with regard to the positioning of CROs, the paper found that there was huge variation in the remuneration scale and confusions regarding the line of reporting. For instance, some CROs had the functional lines of reporting to their executives, whereas other CROs had the functional lines of reporting to their overseeing bodies (Audit Committee, Risk Management Committee, Audit and Risk Management Committee etc.)

Keywords: *Chief Risk Officers (CROs); Enterprise Risk Management (ERM); Human Capital (HC); Public Sector (PS)*

I. INTRODUCTION

The Auditor General of South Africa continues to be concerned that despite efforts made by the South African Local Government Association, National Treasury and the Department of Cooperative Governance and Traditional Affairs in addressing challenges relating to the causes of audit disclaimers, change continues to be very slow.

In this regard, South Africa's public officials have been unable to reign on irregular expenditure, fruitless and wasteful expenditure as well as the unauthorised expenditure. For instance, of the R1.2 trillion budget for the 169 national and provincial government departments as well as 315 public entities, in the 2015/16 fiscal year, R46.4 billion was classified as irregular expenditure (this was R25.7 billion in 2014/15 and R62.7 billion in 2013/14 fiscal years), about R1.4 billion was classified as fruitless and wasteful expenditure (this was R1 billion in 2014/15 and R1.2 billion in 2013/2014) and R925 million was classified as unauthorised expenditure (this was R1.6 billion in 2014/15 and R2.6 billion in 2013/14) (Auditor General South Africa (AGSA), 2016, AGSA, 2015 & AGSA, 2014).

In municipalities, of the R347 billion expenditure budget for the 272 municipalities in 2014/15, R14.8 billion was classified as irregular expenditure (this basket was R11.5 billion in 2013/14 and R12.2 billion in 2012/13), R1.34 billion was classified as fruitless and wasteful expenditure (this was R687 million in 2013/14 and R860 million in 2012/13), and R15.32 billion was classified as unauthorised expenditure (this was R11.4 billion in 2013/14 and R8.5 billion in 2012/13) (AGSA, 2015, AGSA, 2014 & AGSA, 2013,).

According to the National Treasury's Public Sector Risk Management Framework, the enterprise risk management unit is tasked with coordinating and supporting the overall institutional risk management process (National Treasury, 2010). In this regard, this paper argues that individuals providing support referred herein, should themselves be highly proficient in the subject. These individuals are referred to as Chief Risk Officers (CROs).

It is expected that most public institutions will have in place the enterprise risk management unit headed by the respective CRO. This expectation centres on the requirements of the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA), where sections 38(1)(a) (i) and 51(1)(a)(i) of the PFMA requires that the Accounting Officers/Authorities ensure that their institutions have and maintain effective, efficient and transparent systems of risk management (RSA, 1999); and sections 62(1)(c)(i) and 95(c)(i) of the MFMA, requires the Accounting Officers to ensure that their municipalities and municipal entities have and maintain effective, efficient and transparent systems of risk management (RSA, 2003).

If risk management units have been set up and the CROs are proficient in the subject matter that they providing support on, then how can risks such as irregular expenditures, fruitless and wasteful expenditures etc. continue to materialise? The continuous materialisation of these events points to the fact that some parts of the control environment are vulnerable (have weaknesses). The purpose of this paper is to examine specific proficiencies and the positioning of CROs overseeing South Africa's public institutions.

The introduction provided the overview on the state of risk management in South Africa's public service institutions in order to give context. The following section will review the related literature. This section will be followed by a section that outlines the research process. Further, the analysis and interpretation of findings will be conducted and finally the conclusion.

II. RELATED LITERATURE

Academic literature on the subject of risk management in general, and literature in the public sector, specifically is a growing body (see Moloi 2016a and Moloi 2016b). However, it is recognised here that literature on Chief Risk Officers is generally scarce. More so, academic literature on CROs in the public space is almost next to non-existent.

Having indicated this, practitioner literature on the CROs appear to be a growing body. The growth of practitioner literature on the CROs is attributable to the need by industry to have a fully integrated risk management programme. Brown (2010) appears to support where it is pointed out that the business failures of the past were 'attributed to ineffective Governance, Risk and Compliance (GRC) systems. And further, accountabilities of senior executives were rapidly increasing, it was thus difficult for Chief Executive Officers and Chief Financial Officers to dedicate sufficient time to the finer points of risk management.

In looking at the evolving role of the CRO, the Economist Intelligence Unit (The Economist, 2005), came to the conclusion that it has been the pressure and the need to respond to 'increased regulatory pressures and a growing array of business risks', which is actually the main cause of the CRO position emerging as one of the most important positions in the management team.

In 2016, Ernst and Young (2016), conducted the Bermuda Insurance CRO Survey. Their finding was that the risk function has clearly established itself in the organizational structure. Further, they observed that the establishment of the risk function in the organisation structures was accompanied with CROs playing a role across all key processes within the organization.

In the paper entitled 'the Triumph of the Humble Chief Risk Officer', Mikes (2014) seek to revisit the role of the CRO. Following the assessment of the

evolving role of the CRO, Mikes (2014) concludes that the role of the CRO 'may be less about the packaging and marketing of risk management ideas to business managers, but instead, the facilitation of the creation and internalization of a specific type of "risk talk" as a legitimate, cross-functional language of business'.

III. RESEARCH PROCESS

As indicated in the introductory, the continuous leaks in the public resources through fruitless and wasteful expenditure, irregular expenditure etc. points to some form of weaknesses in the public institutions system of control. Since both the PFMA and the MFMA requires that institutions have and maintain effective, efficient and transparent systems of risk management and the Public Sector Risk Management Framework requires that the enterprise risk management unit, with its head as the CRO, coordinates and support the overall institutional risk management process, this paper aims at examining specific proficiencies and positioning of CROs overseeing South Africa's public institutions in order to draw out and analyse this for the purpose of determining whether this is part of contributors to the weaknesses in internal controls.

However, firstly it is useful to explain how this research was carried out. This work was supported by the University of Johannesburg's Department of Accountancy and the Office of Accountant General (OAG) in the National Treasury of South Africa through a memorandum of understanding.

The author, with the assistance of the Risk Management Support Unit in the OAG carried out five months of fieldwork during 2016. The material was gathered primarily through the questionnaire that was administered to the key interest groups involved with risk management policymaking and the implementation of this in South Africa. The administered questionnaire contained questions on the academic qualifications of the CROs, professional membership bodies which CROs are members, the scale of the CROs remunerations as well as functional and administrative lines of reporting of these CROs.

Respondent were identified according to their expertise and role in the public institutions risk management process. This identification process involved the examination of the CROs register which is the register kept by the Office of Accountant General. Thus, the questionnaire was sent to all CROs in the register. To supplement this process, the questionnaire was also distributed in the National Treasury's CROs forum. The questionnaire contained both the closed and the open ended questions. Marcus (1999) and Valentine (1997) favours this approach as they believe that it allows the researcher to examine topics under review in greater depth. One hundred questionnaires (100) were received back from responded. All the questionnaires received were deemed valid for processing as all questions had been answered by respondents.

Duffy (2008) views the approach followed here as compatible with the one used in international politics. In this regard, Duffy (2008) is of the view that this approach is 'the most useful and productive method of carrying out research on the international politics of a particular issue'. Further, the idea of engaging the CROs who are senior executive in the risk space is consistent with what Duffy (2008) refers to as the engagement of the elite as which accordingly is 'a standard technique in political research'. Accordingly, this technique, is particularly useful in terms of 'uncovering the complex and sensitive power dynamics of policymaking that are so often excluded from and 'scripted out' of public policy reports and quantitative datasets'.

IV. RESEARCH FINDINGS AND INTERPRETATION

TABLE 1 – FINDINGS – ACADEMIC QUALIFICATIONS OF CROs

Qualification type	National government departments	Public entities	Provincial departments	Municipalities	Total
No qualification	1	0	0	0	1
Grade 12/ Matric	1	1	2	4	8
Diploma	0	1	1	2	4
National diploma	1	3	6	5	15
Bachelor's degree / B Tech	6	12	21	8	47
Honours degree	4	19	14	2	39
Master's degree/ MBA	4	16	3	0	23
Doctoral degree/ PhD	0	0	1	0	1

Majority of qualifications held by Public Sector CROs are between the Bachelor's degree / B Tech degree and Honours degrees. There was one (1) CRO with no qualification and this CRO was in the NGD. One (1) CRO in the PGD had a PhD.

TABLE 2 – FINDINGS – PROFESSIONAL MEMBERSHIPS OF CROs

Institute	National government departments	Public entities	Provincial departments	Municipalities	Total
No membership	3	1	5	5	14
Institute of Internal Auditors	3	14	11	3	31
Association of Certified Fraud Examiners	1	7	8	5	21
Institute of Business Continuity Management	0	5	1	0	6

Institute	National government departments	Public entities	Provincial departments	Municipalities	Total
Institute of Risk Management South Africa	5	28	14	5	52
South African Institute of Government Auditors	0	1	0	0	1
South African Institute of Professional Accountants	1	3	0	0	4
South African Institute of Chartered Accountants	1	11	1	0	13

Fourteen (14) CROs had no professional membership i.e. three (3) in NGDs, one (1) in a Public Entity, five (5) in PGDs and municipalities respectively. The Institute of Risk Management South Africa (IRMSA), had the largest slice of membership subscriptions by CROs, followed by the Institute of Internal Auditors South Africa (IISA) and then the Association of Certified Fraud Examiners (ACFE). Other institutes reported include IMFO, ISACA, Ethics SA, IODSA and CISA.

TABLE 3 – FINDINGS – CROS REMUNERATION

Package category	National government departments	Public entities	Provincial departments	Municipalities	Total
Director General/City Manager/ Municipal Manager	0	2	0	0	2
Deputy Director General/ Deputy Municipal Managers/ Executive Director	1	9	2	0	12
Chief Director/ Divisional Heads/ General Manager	3	9	2	0	14
Director/ Senior Manager	7	10	12	1	30
Deputy Director/ Manager	0	7	13	3	23
Assistant Director/ Assistant Manager	1	1	1	8	11

Majority of CROs are remunerated at the levels of Director/ Senior Manager, followed by Deputy Director/ Manager. The highest paid CROs are in the Public Entities (two CROs) and they are at the level of Director General/City Manager/ Municipal Manager. The second highest paid CROs are at the level of Deputy Director General/ Deputy Municipal Managers/ Executive Director, one (1) is in the NGD, nine (9) are in Public Entities and two (2) are in PGDs. Municipalities reported the lowest paid CROs as the majority of them were at the Assistant Director/ Assistant Manager level.

TABLE 4 – FINDINGS – FUNCTIONAL LINE OF REPORTING

Line of reporting	National government departments	Public entities	Provincial departments	Municipalities	Total
Audit Committee	5	22	5	4	36
Risk Management Committee	5	19	19	12	55
Director General/City Manager/ Municipal Manager	3	3	7	5	18
Deputy Director General/ Deputy Municipal Managers/ Executive Director	0	4	4	3	11
Chief Director/.Divisional Heads/ General Manager	4	3	1	0	8
Director/ Senior Manager	0	1	0	0	1

In general, the functional line of reporting appears to be both the Audit Committee (five NGDs, twenty two Public Entities, five PGDs and four municipalities) and the Risk Management Committee (five NGDs, nineteen Public Entities and PGDs respectively and four municipalities). In some cases, CROs indicated that their functional line of reporting was the Executive i.e. Director General/City Manager/ Municipal Manager (three NGDs, three Public Entities, seven PGDs and five municipalities), Deputy Director General/ Deputy Municipal Managers/ Executive Director (four Public Entities, four PGDs and three municipalities), Chief Director/.Divisional Heads/ General Manager (four NGDs, three Public Entities and one PGD), Director/ Senior Manager (one Public Entity).

TABLE 5 – FINDINGS – ADMINISTRATIVE LINE OF REPORTING

Line of reporting	National government departments	Public entities	Provincial departments	Municipalities	Total
Audit Committee	0	3	0	3	6
Risk Management Committee	2	5	4	3	14
Director General/City Manager/ Municipal Manager	5	12	11	10	38
Deputy Director General/ Deputy Municipal Managers/ Executive Director	1	8	4	4	17

Line of reporting	National government departments	Public entities	Provincial departments	Municipalities	Total
Chief Director/ Divisional Heads/ General Manager	3	5	5	0	13
Director/ Senior Manager	0	2	1	1	4

In general, the administrative line of reporting appears to be both the Director General/City Manager/ Municipal Manager (five NGDs, twelve Public Entities, eleven PGDs and ten municipalities) and the Deputy Director General/ Deputy Municipal Managers/ Executive Director (one NGDs, eight Public Entities four PGDs and municipalities respectively). In some cases, CROs indicated that their functional line of reporting was a level lower i.e. Chief Director/ Divisional Heads/ General Manager (three NGDs, five Public Entities and PGDs respectively) as well as Director/ Senior Manager (two Public Entities, one PGD and one municipality).

V. CONCLUSION

This paper aimed at examining specific proficiencies and positioning of CROs overseeing South Africa's public institutions in order to draw out and analyse this for the purpose of determining whether this is part of contributors to the weaknesses in internal controls.

The proficiencies were deemed as a function of qualifications as well as membership of professional body, whereas the positioning was deemed as a function of remuneration scale where the CRO has been positioned as well as the reporting line. As such, the administered questionnaire contained questions on the academic qualifications of the CROs, professional membership bodies which CROs are members, the scale of the CROs remunerations as well as functional and administrative lines of reporting of these CROs.

The findings are that the public institutions CROs have post school qualification, with the majority of them holding a Bachelor's/ B Tech degree. There was one instance where the CRO did not hold any qualification. The disadvantage of the measuring instrument is that it did not request the information on the nature of qualification, so that it could be determined whether the qualification is in line with the requirement of the risk management position. Further studies on this area could determine this.

Of concern though is that there were some CROs that were not part of any professional body. Majority of CROs indicated that they were members of IRMSA, which is a relevant body when it comes to risk management. The downside though is that some professional bodies, in the past, awarded mem-

bership on the basis of the recognition of prior learning without assessing the competence of the member.

Public institutions CROs are remunerated differently, with the majority of them being remunerated at a Director level. This could cause a loss of skills and corporate memory as those that are remunerated at levels that are lower could seek opportunities for advancement in areas where the remuneration is higher. A unitary scale could be considered per sector i.e. similar scale at national government level, similar scale in municipalities etc.

There seem to be confusion between the functional line and the administrative line of reporting. Ideally, with these types of positions, the functional line of reporting should be the overseeing body (risk management committee, audit committee, audit and risk committee etc). The administrative line of reporting could be the Accounting Officer.

In conclusion, on paper, there does not seem to be an issue on the proficiency side as measured by qualifications and professional membership, except the fact that qualifications held by the CRO could be incompatible with the position and that the professional membership body may not have assessed the competencies during the members' admission. To ensure compatibility and proper support, National Treasury could standardise and promote certain proficiencies as key requirements for the CRO position.

In a similar manner, because of a huge variation in the remuneration scale and confusions regarding the line of reporting, National Treasury could standardise this. This could be helpful, particularly in instances where CROs have implied that the position of the CRO is too junior to attend strategic meeting or even engage with the executive members.

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DEFINITIONS

- The PFMA defines the irregular expenditure as 'the expenditure other than authorised expenditure' (RSA, 1999). This expenditure, the PFMA states that it would have been incurred in contravention of or that is not in accordance with the requirements of the applicable legislation such as the Act itself, the State Tender Board Act or any provincial legislation providing for procurement procedures in that particular provincial department (National Treasury, 2015).
- Fruitless and wasteful expenditure is defined as 'expenditure made in vain and would have been avoided had reasonable care been exercised (RSA,

1999). In the guidelines for fruitless and wasteful expenditure, the Office of Accountant General add that the 'in vain' would refer to a transaction, event or condition which was taken without anything being derived from it or substance which did not yield any desired result or outcome' (National Treasury, 2014).

- Unauthorised expenditure refers to 'an overspending on a vote or a main division within a vote. It can also be defined as 'an expenditure that is made not in accordance with the purpose of a vote or in the case of a main division, not in accordance with the purpose of that main division' (National Treasury, 2014).

STAVOVI I POZICIONIRANJE GLAVNIH UPRAVITELJA RIZIKOM U JAVNIM INSTITUCIJAMA JUŽNE AFRIKE

SAŽETAK RADA:

Ovaj rad proučava vještine i poziciju glavnih upravitelja rizikom u okviru nedostataka i slabosti internih kontrola u južnoafričkim javnim institucijama. Posebnu pažnju posvećuje kvalifikacijama i članstvu u profesionalnim udruženjima kao mjerilo vještina te skalu nagrađivanja i linije izvještavanja kao mjerilo pozicioniranja.

Uz poštivanje stečenih vještina zamijećeno je da većina glavnih upravitelja rizikom ima srednjoškolsko obrazovanje. Međutim, uzimajući u obzir pozicioniranje glavnih upravitelja rizikom ovaj rad pokazuje velike varijacije u skalama nagrađivanja te zbrku u načinu izvješćivanja. Na primjer, dio upravitelja rizikom redovita izvješća daje rukovoditeljima dok drugi izvještavaju izravno nadzornim tijelima (revizorski odbor, odbor za upravljanje rizicima, odbor za reviziju i upravljenje rizicima i dr.).

Ključne riječi: glavni upravitelj rizikom, upravljanje rizicima poduzeća, ljudski kapital, javni sektor