the dr&pw

Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

DEPARTMENTAL POLICY FRAMEWORK ON RISK APPETITE AND RISK TOLERANCE

Version 2

(January 2025)

TABLE OF CONTENTS

Contents Page

1. DEFINITIONS AND ACRONYMS

Unless otherwise indicated, the following terms shall be defined as follows:

"AO"	Means Accounting Officer, which refers to a person mentioned in section 36 of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999), as amended. The AO is also the Head of Department (HOD).
"Corruption"	Refers to the unlawful and intentional making of a misrepresentation which causes actual prejudice or which is potentially prejudicial to another.
"CRO"	Means Chief Risk Officer, which refers to the Senior Management Service (SMS) official who is responsible for the management of Risk in the DR&PW.
"Department / DR&PW"	Means the Department of Roads and Public Works, Province of the Northern Cape.
"Employee"	Refers to any person employed in terms of the Public Service Act, 1994 as amended regardless of rank or position by the DR&PW.
"Fraud"	Fraud refers to a deception that is intentional and caused by an employee/network of employees for personal gain. In other words, fraud is a deceitful activity used to gain an advantage or generate an illegal profit.
"IAC"	Means Internal Audit Committee, which is an independent committee constituted to, amongst others, review the control, governance and risk management within the DR&PW, established in terms of section 77 of the PFMA. According to section 38(1)(a)(ii) of the PFMA, 1999, as amended,

	the accounting officer for a Department, trading entity or constitutional institution must ensure that *"a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77"* is established and maintained.
"Internal Audit"	Refers to an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
"IAP"	Means Internal Audit Plan, which is an internal plan of the DR&PW.
"Internal Audit and Risk Management Unit"	Refers to a business unit of the DR&PW that is responsible for coordinating and supporting the overall departmental Risk Management Process, but which does not assume the responsibilities of the Department's Management for identifying, assessing and managing risks.
"King II and III"	Refer to the King Reports on Corporate Governance in South Africa for 2002 and 2009 respectively. The King Committee on governance issued the *King Report on Governance for South Africa – 2009 (the "Report")* and the *King Code of Governance Principles – 2009 (the "Code")*, together referred to as *"King III"* on 1 September 2009. The issuance of King III was necessitated by, at the time, the new Companies Act of 2008 and changes in international governance trends since the release of the second King Report on Corporate Governance for South Africa (King II) in 2002.
"M&E"	Means Monitoring and Evaluation. These concepts refer to processes undertaken to monitor and evaluate whether individual departmental units

	and the Department as a whole are obtaining and utilising their resources effectively and efficiently to accomplish their objectives, and where this is not being achieved, to implement corrective action.
"PFMA"	Means Public Finance Management Act, 1999 (Act No.1 of 1999), as amended by Act No.29 of 1999.
"PAIA"	Means Promotion of Access to Information Act, 2000 (Act No. 2 of 2000).
"PAMA"	Means Public Administration Management Act, 2014 (Act No. 11 of 2014).
"PDA"	Means Protected Disclosures Act, 2000 (Act No. 26 of 2000).
"PIA"	Means Protection of Information Act, 1982 (Act No. 84 of 1982).
"POCA"	Means Prevention of Organized Crime Act, 1998 (Act No. 121 of 1998).
"PRECCA"	Means Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 2 of 2004).
"PSA"	Means Public Service Act, 1994 (Act No. 103 of 1994).
"PSCBC"	Means Public Service Co-ordinating Bargaining Council.

"PSRMF"	Means Public Sector Risk Management Framework (PSRMF).
"Responding to Risk"	Risk response is concerned with the development of strategies to reduce or eliminate the threats and events that create risks, both pro-actively, like a BCP and re-actively.
"Risk"	Refers to an unwanted outcome, actual or potential, to the Department's service delivery and other performance objectives, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which the DR&PW Management must be aware of and be prepared to exploit. This definition of "risk" also encompasses such opportunities, which are also called "risk optimisation".
"Risk Bearing Capacity"	Refers to the maximum amount of risk an institution is able to handle in line with its mission/values /strategic goals, without exposing it to the point where its existence and survival is under threat.
"Risk Appetite"	Refers to the amount of risk, on a broad level, an institution is willing to accept in pursuit of stakeholder value, as well as the levels of risk an institution is required to take and/or is willing to accept in all institutional levels in order to achieve its stated objectives. Therefore, Risk Appetite deals with the ***pursuit*** of risk (upside risk), i.e. *"...the amount and type of risk that an organisation is willing to pursue or retain"* (ISO Guide 73).
"Risk Assessment"	Refers to a systematic process to quantify or qualify the level of risk associated with a specific threat or event, in order to enrich the Risk Intelligence available to the Department.

"Risk Thresholds"	Refers to a quantified limit or parameter within which risk can be taken or managed. This term is the collective name for risk appetite, risk tolerance and risk bearing capacity.
"Risk Tolerance"	Refers to the *risk levels* that an institution is able to deal with/absorb, without significantly impacting the achievement of the strategic objectives and can also refer to undesirable variations of risk levels in relation to the achievement of specific objectives. Risk Tolerance can be expressed at a more granular/absolute level, for example *"...we will not expose more than x% of our budget to losses in certain types of service delivery operations"* or *"...we will not deal with certain types of potential service providers".*
"Risk Identification"	Refers to a deliberate and systematic effort to identify and document the Department's key risks for a particular pre-determined time frame, e.g. a financial year.
"Risk Management"	Refers to a systematic and formalised process to identify, assess, manage and monitor departmental risks. Risk management is the identification and evaluation of actual and potential risk areas as they pertain to the DR&PW as a total entity, followed by a process of either avoidance, termination, transfer, tolerance (acceptance), exploitation, or mitigation (treatment) of each risk, or a response that is a combination or integration. Accountability for proper Risk Management rests with the Executive Management of the DR&PW, which fulfils the role of a Board of Directors, compared to a private company. Every employee in an organization however, has responsibility for risk management. Risk management therefore has to be fully integrated into the daily operations of the Department.
"Risk Management Process"	The Risk Management Process entails the planning, arranging and controlling of activities and resources to minimise the negative impacts of

	all risks to levels that can be tolerated by stakeholders whom the departmental Management has identified as relevant to the business of the DR&PW, as well as to optimise the opportunities, or positive impacts, of all risks.
"Risk Mitigation"	Means the limitation of any negative consequence(s) of a particular event.
"Risk Register"	Refers to a formal listing of risks identified, together with the results of the Risk Analysis and Risk Evaluation procedures, in conjunction with the details of Risk Treatment, Risk Control and Risk Reduction and Mitigation Plans.
"RMC"	Means Risk Management Committee, a departmental committee of the DR&PW, which replaces the previous Joint Risk Management Committee (JRMC) and its successor, the Fraud Prevention, Ethics and Risk management Committee (FPERC). The RMC is appointed by the Accounting Officer to, amongst others; review the DR&PW's system of risk management.
"SAPS"	Means South African Police Service.

2. INTRODUCTION

2.1 This policy framework was developed as supplemental to the other departmental policy documents on risk management (see section on Regulatory Framework). It provides insights on risk appetite and risk tolerance, taking into account the PFMA legislation and the PSRMF of the South African Government.

2.2 Risk Appetite and Risk Tolerance are terms that are often incorrectly interchanged without a solid understanding of the definition of each of these related, yet different concepts; a situation which this policy framework seeks to address and resolve in the context of the DR&PW.

2.3 Although risk appetite and risk tolerance respectively are integral components of an effective overall risk management framework, they are underutilized in practice. The principal reasons for this are:

a) uncertainty about their relevance in the public sector, particularly in relation to the Public Finance Management Act (PFMA);
b) the general confusion surrounding the definitions and application of risk appetite and risk tolerance, exacerbated by conflicting interpretations in the available frameworks and literature; and
c) uncertainty about the benefits of applying these concepts, given the complexities involved in their implementation.

3. BACKGROUND

3.1 In executing its mandate, the DR&PW is being confronted with risks and challenges that may adversely affect the attainment of pre-determined departmental priorities and objectives. These risks may emanate internally or externally and may be influenced by economic and/or political changes. As a general rule, risks are identified and assessed/evaluated in accordance with different Risk Treatment Approaches, as defined in the DR&PW Risk Management Strategy.

3.2 In light of the aforementioned, it is not always efficient or possible to manage risks to zero residual risk or a very low residual risk threshold because of the time, cost and effort that will be required. On the other hand, it is also poor management practice to accept risks which create unnecessary exposure for the Department. The development of the Risk Appetite and Tolerance Model becomes of vital importance in this regard.

3.3 An institution's ability to completely eradicate or manage risk to a low residual level is often inhibited by various constraints, including factors beyond its control. However, even in the absence of such limitations, it is not necessarily beneficial to steadfastly pursue risk control without properly understanding the cost-benefit (also called risk-reward) implications.

3.4 Risk control consumes an institution's limited resources and exhibits diminishing returns. It is therefore important for an institution to be strategic about the level of performance it can achieve with the resources at its disposal and the optimum Risk Portfolio that allows it to achieve that level of performance.

3.5 Risk should be optimized at a level that neither creates downside effects through factors that could be adequately controlled within the cost-benefit paradigm, nor cause missed opportunities because

of resource constraints created by over-investing in risk control. An institution must take calculated risks based on cost-benefit optimization. This exercise will then enable an institution to maximize its performance in an environment defined by uncertainty and resource limitations.

3.6 The level of "acceptable risk" is represented by the concepts of "risk appetite" and "risk tolerance", which establish boundaries within which decisions are made. These concepts embody calculated risk-taking, premised on the understanding that risk and progress are inextricably intertwined, and one cannot exist without the other. Many institutions already apply such boundaries in their decision-making as part of their organizational customs and norms, without necessarily recognizing them as risk appetite and tolerance.

3.7 Risk tolerance and risk appetite are intended to encourage and focus management to think effectively about risk when making strategically significant decisions. The advantage of working within clearly defined boundaries assists with avoiding over or under controlling risks, both of which impose costs on the institution. Over-control consumes scarce resources that could be used more productively, while under-control usually ends up imposing significant costs when risks that could have been managed cost-effectively actually materialize.

3.8 No institution, regardless of its sector, can operate optimally without taking risks. The only question is how much risk do they need to take? Taking risks without consciously managing those risks can lead to the failure of an institution and therefore a well formulated, strategically aligned and regularly revised statement from the Top Management is required in order to successfully implement and support the Risk Management function.

4. THE DIFFERENCE AND RELATIONSHIP BETWEEN RISK APPETITE AND RISK TOLERANCE

4.1 The Difference between Risk Appetite and Risk Tolerance

4.1 Risk appetite vs. risk tolerance: These two terms are often confused and even used interchangeably. While they both provide guidance for deciding how much risk to take on, risk appetite and risk tolerance are separate concepts that both play an important role in finding the balance between taking risk and controlling it. Knowing the distinction, how they interact, and how to put them to work can make sure you are taking the right amount of risk to accomplish your strategic goals.

4.2 Think of risk appetite vs. risk tolerance as two sides of the same coin. In terms of the general principles of the methodology of Enterprise Risk Management (ERM), these terms can be explained as follows:

a) **Risk appetite** is the amount of risk an institution is willing to take to achieve its objectives. Risk appetite is applied broadly and strategically.

b) **Risk tolerance** is the specific level of risk an institution deems acceptable within various categories of risk. Risk tolerance is applied operationally and tactically.

4.3 Risk tolerance thus sets minimum and maximum limits for each risk category, business unit, or initiative. Unlike risk appetite, risk tolerance is described in quantitative terms. Clearly defined measures such as key risk indicators, revenue, and credit ratings can be used to gauge whether you are staying within your risk tolerance limits. If you cross the threshold, you must act. These metrics can help guide everyday decisions and alert you when you're in danger of exceeding your limits.

4.4 A publicly traded company that wants to provide steady returns to its shareholders, for example, might set its risk tolerance level at no more than two consecutive quarters with negative earnings. Anything beyond that limit would trigger a review of activities to move performance back into positive territory. Similarly, a company that prioritizes customer service might be able to tolerate, say, a maximum of two hours of system downtime without significantly impacting service or revenue. Longer outages would trigger a backup plan.

4.5 Risk appetite is the amount of volatility or uncertainty acceptable to achieve goals. It is typically set by the Top Management and senior managers as part of the strategic planning process, often in a dedicated Risk Management Workshop.

4.6 Risk appetite is a function of circumstances and is usually expressed in relative terms, such as:

a) **Extremely high.** You are willing to accept a significant amount of uncertainty or volatility in exchange for greater rewards like significant growth in the construction market.
b) **High.** You are willing to accept strongly justified risks in exchange for growth.
c) **Moderate.** You are willing to accept only as much risk as necessary to achieve goals.
d) **Low.** You will reluctantly accept only those risks that are essential for maintaining a healthy business.
e) **Extremely low.** You are unwilling to take on risks, even if the result is slower growth or lower service delivery output.

4.7 While risk is often considered a negative to be avoided, you can't avoid all risk. Some risk is necessary to grow. Your risk appetite will depend on the maturity of your operations, stage of growth, stakeholder expectations, economic and construction industry considerations, branding factors for example.

4.8 The critical point is to decide on the level of risk you're comfortable with within the context of your business unit's strategy. If you don't understand the relationship of risk and uncertainty in your strategy, then you really don't understand your strategy.

4.2 The Relationship between Risk Appetite and Risk Tolerance

4.2.1 While both concepts are related, they have two different purposes. So, we can say they are complementary: Risk appetite is what drives the willingness of the Department to take risks. Risk tolerance then defines the boundaries and standards for assessing and responding to those risks.

4.2.2 Therefore, risk appetite and tolerance must be "in sync" and aligned with the institutional goals and objectives of the Department.

4.2.3 An institution determines its risk appetite as part of a strategic effort to understand and manage risks. It determines risk tolerance on a case-by-case basis as it evaluates the specific risks associated with a given Service Delivery Operation. One way to understand this relationship is to think of the risks associated with fast driving.

4.2.4 Governments around the world recognize that fast drivers create a level of risk to all other drivers on the road. The faster a motorist drives, the more risk is created. To control this risk, governments set speed limits. The lower the speed limit, the lower the risk to motorists.

4.2.5 However, lower speed limits also inhibit the flow of traffic, preventing vehicles from quickly reaching their destinations. Governments must balance these concerns and determine the appropriate rate of speed for different types of roads. Speed limits are, therefore, statements of the government's risk appetite.

4.2.6 On highways today, however, most drivers exceed the posted speed limits. Traffic Police officers responsible for enforcing these limits usually let motorists do so as long as they aren't travelling at speeds far beyond the posted limit. An officer patrolling a road with a 100 kilometre per hour limit might, for example, decide to only pull over vehicles travelling at 120 kilometres per hour or faster. This is an example of risk tolerance: The officer, presumably with the approval of superiors and

other government officials, is willing to tolerate deviations of up to 20 kilometres per hour from the posted speed limit.

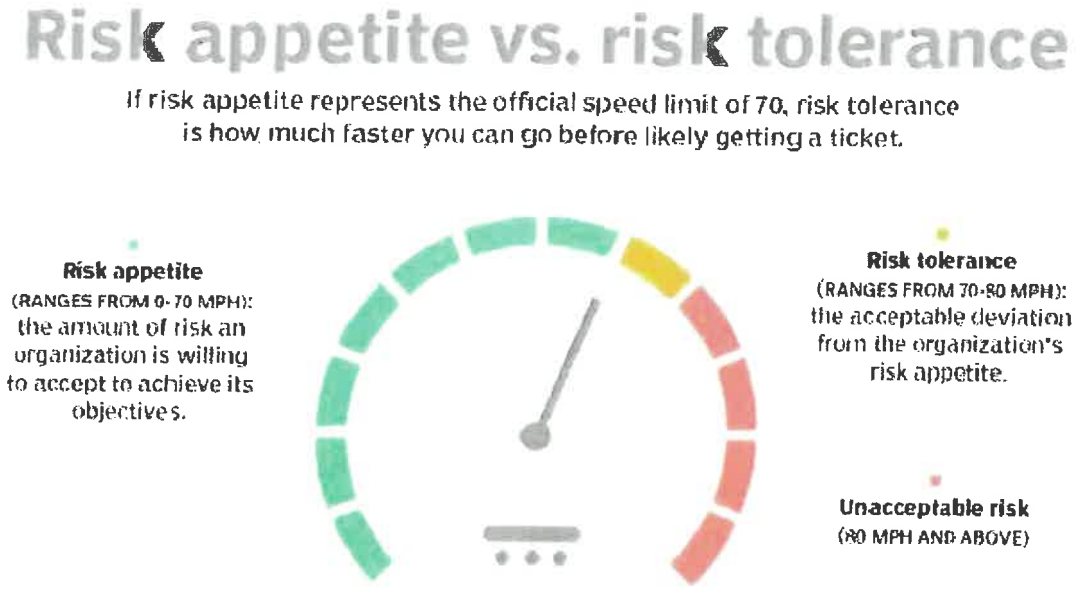

Figure 1: Risk Appetite vs. Risk Tolerance

4.2.7 An institution's Risk Appetite is communicated via a Risk Appetite and Tolerance Statement, usually contained in the institution's Annual Report. The statement should include a range of quantifiable values, defining the acceptable levels of risk that the management is willing to accept in pursuing the risks required to take in order to meet its objectives. Therefore, the development of a defined Statement, addressing both risk appetite and risk tolerance, is a crucial starting point to the risk management process.

4.2.8 While speed limits are an excellent conceptual example for describing risk management considerations, in practice, most of the risk decisions made by institutions are not so easily quantified. Instead they rely on subjective evaluations of risk made by institutional leaders in consultation with subject matter practitioners and experts. These evaluations and decisions are documented in statements of the institution's risk appetite and risk tolerance.

4.2.9 For example, the departmental Risk Management Committee (RMC) might make the following statement about the DR&PW's risk appetite: *"Our Department understands that there are risks*

inherent in our Service Delivery Environment and that taking risks is a prerequisite to achieving our Strategic Objectives. Our Enterprise Risk Management (ERM) programme methodically evaluates risks using a cost/benefit approach and determines appropriate Risk Treatment Strategies. As a department, we have a low appetite for risks that involve the possible loss of personally identifiable information about our clients and employees and a moderate appetite for risks that involve the potential for financial losses or cyber security breaches and which may impact other Service Delivery Objectives".

4.2.10 The RMC might extend this risk appetite statement to include all of the different types of risk facing the Department, and then use it to craft more specific risk tolerance statements about individual Service Delivery Initiatives under consideration. For example, the RMC might find that a project is within the DR&PW's risk appetite and issue a statement such as the following:
"The departmental RMC evaluated the risk of implementing project X and determined that it has a low probability of creating potential loss. It is, therefore, within our risk tolerance."

4.2.11 But another project might exceed the Department's risk tolerance. In that case, the RMC might suggest that the project team revisit the relevant risks and implement new controls to mitigate, avoid or transfer the risk to bring the project to an acceptable risk level. The risk tolerance statement for that project might read like this:
"The departmental RMC evaluated the risk of implementing project Y and determined that it would create a situation of high financial risk that is outside our risk tolerance. Controls must be put in place to mitigate this risk to an acceptable level prior to initiating this project."

4.2.12 Identifying and documenting risk appetite is a crucial step in an institution's road toward a mature risk management process. The risk appetite provides a yardstick for the consistent measurement and evaluation of risks and paves the way for using associated risk tolerance statements to better guide future risk mitigation work.

4.2.13 When developing a risk appetite statement, the structure of the statement should be aligned with its own risk classification system. This is essential, because organisations will have different appetites for different types of risk. Almost all organisations will tend to have a low risk appetite for financial risks, such as fraud or the incorrect allocation of capital. Also, almost all organisations will have very low risk appetite for circumstances that can damage the reputation of the organisation.

4.2.14 Infrastructure risks include people, premises and processes. Generally speaking, organisations will have a very low risk appetite for safety risks that can cause injury or ill-health to people. However, the same institutions may have a higher risk appetite in relation to other components of their infrastructure. Some organisations are willing to take considerable risks with their processes and information systems. There may be a desire to outsource many activities within an extensive range of suppliers and contractors.

5. POLICY OBJECTIVE

5.1 This policy framework serves to provide guidelines and thresholds to assist the DR&PW in making informed decisions on the amount of risk the Department is capable of bearing as part of normal management practice.

5.2 This policy framework further call for the embedding of risk management practices in the day-to-day activities within the various Programmes of the Department to ensure that risks identified are risks managed.

6. APPLICABILITY AND SCOPE

This policy framework on Risk Appetite and Risk Tolerance is applicable to all Programmes within the Department of Road and Public Works.

7. REGULATORY FRAMEWORK

The following instruments provide the legal framework for the responsibilities of the DR&PW Management, as well as the responsibilities of Other Officials of the Department in terms of departmental risk management, namely:

7.1 The Constitution of the Republic of South Africa, 1996.

7.2 The Public Finance Management Act (PFMA), 1999 (Act No.1 of 1999), as amended by PFMA Amendment Act, 1999 (Act No. 29 of 1999). The Public Finance Management Act sec 38(1(a)(i) requires that the Accounting Officer must ensure that the Department has and maintains effective efficient and transparent systems of financial and risk management and internal control.

7.3 The Prevention and Combating of Corrupt Activities (PRECCA) Act, 2004 (Act No. 2 of 2004), which aims to prevent and fight corruption in the Public Sector, Government in general, as well as in the Public Administration.

7.4 The Prevention of Organized Crime Act (POCA), 1998 (Act No. 121 of 1998).

7.5 The Promotion of Access to Information Act (PAIA), 2000 (Act No. 2 of 2000) and the PAIA Manual.

7.6 The Protection of Information Act (PIA), 1982 (Act No. 84 of 1982).

7.7 The Witness Protection Act (WPA), 1998 (Act No. 112 of 1998).

7.8 Section 2(1) (a) and (b) of the Protected Disclosures Act (PDA), 2000 (Act No. 26 of 2000).

7.9 The Public Administration Management Act (PAMA), 2014 (Act No. 11 of 2014).

7.10 The Public Service Act (PSA), 1994 (Act No. 103 of 1994).

7.11 The Public Service Anti-Corruption Strategy, 2000.

7.12 The Public Service Anti-Corruption Strategy, 2002.

7.13 The National Anti-Corruption Strategy, 2020-2030.

7.14 National Treasury Regulations, 2001, 2005 and Guidelines. Section 3.2.2 of the Treasury Regulations states that the Accounting Officer must facilitate a risk assessment to determine the material risks to which the institution may be exposed and to evaluate the strategy for managing these risks. Such a strategy must include a Fraud Prevention Plan. The strategy must be used to direct Internal Audit efforts and priorities and determine the skills required to manage these risks.

7.15 The King II Report on Corporate Governance, 2002.

7.16 The King III Report on Corporate Governance, 2009.

7.17 The Batho Pele Principles.

7.18 The Public Sector Risk Management Framework, 2010.

7.19 The Public Service Regulations (PSR), 2001, as amended in 2002 and 2016.

7.20 The Disciplinary Code and Procedure for the Public Service (PSCBC Resolution 2 of 1999).

7.21 The Code of Conduct for the Public Service, as contained in the Public Service Regulations, 2016.

7.22 The latest approved versions of the following associated departmental regulatory frameworks, amongst others, apply:

a) The DR&PW Risk Management Policy.
b) The DR&PW Risk Management Strategy.
c) The DR&PW Monitoring and Evaluation (M&E) Strategy Framework.
d) The DR&PW Policy on Irregular Expenditure.
e) The DR&PW Policy on Fruitless and Wasteful Expenditure.
f) The DR&PW Policy on Unauthorised Expenditure.
g) The Current DR&PW Internal Audit Plan (IAP).
h) The Plan: DR&PW Compilation of Policies on Fraud, Corruption and Ethics Management, specifically the following:
    (i) the DR&PW Anti-Fraud and Corruption Implementation Plan;
    (ii) the DR&PW Anti-Fraud and Corruption Charter;
    (iii) the DR&PW Code of Ethics and Conduct;
    (iv) the DR&PW Anti-Fraud and Corruption Strategy and Response Plan;

(v) the DR&PW Anti-Fraud, Anti-Corruption and Ethics Strategy;

(vi) the DR&PW Terms of Reference of the departmental Risk Management Committee (RMC);

(vii) the DR&PW Strategy on Whistle Blowing / Protected Disclosures; and

(viii) the DR&PW Whistle Blowing / Protected Disclosures Guidelines.

8. ROLES AND RESPONSIBILITIES OF KEY STAKEHOLDERS

8.1 The risk tolerances may be used by different stakeholders as follows:

Figure 2: Risk Tolerances used by Different Stakeholders

8.2 The high level role of key stakeholders in relation to risk appetite and tolerance is as follows:

Stakeholder	Key role
Accounting Officer	Approval of risk appetite and tolerance levels and setting an appropriate tone by supporting the department's aspirations for effective management of risks
Internal Audit Committee (IAC)	Provide an independent and objective view of the department's risk management effectiveness

Internal Audit and Risk Management	Evaluate the effectiveness of risk management and provide recommendations for improvement
Risk Management Committee (RMC)	Review and recommend for approval of Accounting Officer and ensure that limits/thresholds are supported by a rigorous analysis and expert judgment
Senior Management	Determine the level of risk tolerance
Chief Risk Officer (CRO)	Facilitate the development of the risk appetite and tolerance in consultation with management

Table 1: Roles of Key Stakeholders in relation to Risk Appetite and Tolerance

9. PROCEDURES

9.1 Approach for Determining Risk Tolerance and Appetite

9.1 It is the responsibility of senior management to set risk appetite and tolerance levels. The CRO however, has the responsibility to drive and lead the process. The perfect timing for setting risk appetite and tolerance is at the strategic risk assessment sessions that are conducted during departmental planning processes or whichever time the risk register is reviewed.

9.2 **The following matters will be considered for setting risk appetite and tolerance levels:**

a) For individual material risks as well as aggregate appetite and tolerance for particular categories of risk.
b) Per individual directorate or sub directorate depending on the nature of their objectives.
c) Thresholds and targets may be necessary to serve as guiding principles in setting tolerances.
d) By rigorous analysis and expert management judgment.
e) Zero tolerance should be adopted for risk exposures such as fraud and corruption, regulatory compliance and health safety.

9.2 Guiding Principles for Risk Tolerance and Appetite Determination

In order to ensure effective setting of risk tolerance and risk appetite levels, basic practical ways or principles must be applied.

- **Principle 1: Use of legislated or regulatory frameworks**

  This applies to risks where legislation already set thresholds or deadlines and where processes are well regulated.

- **Principle 2: Nationally set priorities**

  The department will adopt levels as determined by the Government of the day to deal with issues such as crime, mortality rate, eradication of poverty, unemployment rate, etc.

- **Principle 3: Absolute figures**

  At an individual strategic risk level, the department may calculate or express in rand value the amount of loss resulting to a risk occurring. A threshold is then determined to establish the monetary loss which the department is willing to accept.

- **Principle 4: Key risk indicators**

  This principle enables one or more tolerances to be set for the same risk depending on the number of indicators identified for that risk. The number of risk indicators may be used to determine acceptability of the risk.

- **Principle 5: Using number of losses (loss register)**

  This information is already somewhere within the department in terms of how many losses and what has been lost over a particular period. These losses could be as a result of theft, fraud, damage or where possible expiration.

- **Principle 6: Results of risk assessments**

  Consideration is made in terms of how the risk profile of the Department looks like.

  Below is an example:

Risk priority	Risk acceptability	Proposed actions
Low risks	Acceptable	• No further risk reduction required • Continue control • Monitor at least annually
Medium risks	Unacceptable	• Implement further actions to reduce likelihood of risk occurrence • Draw action plans to mitigate risks • Monitor at least quarterly

High risks	Unacceptable	• Drastic action plans • Allocate resources • Contingency plans • Business Continuity Plans • Remedial actions • Continuous monitoring

Table 2: Risk priority, Risk acceptability and Proposed actions

- **Principle 7: Use of analysis of available information pertaining to the risk**

  This applies mainly where a risk has not been clearly defined and therefore becomes difficult use one or more of the above six (6) principles. Appetite and tolerance levels are then set with reference to the root causes of risks, historical information, existing controls, etc. The CRO and Management may use this as an opportunity to completely change the risk or rephrase to allow a better description of a risk.

Tolerance level	Description
Acceptable (low deviation)	Unlikely to cause much damage and/or threaten the efficiency and effectiveness of the institution. Treatment plans to be developed and implemented by operational managers. Manage by specific monitoring or response procedures.
Endurable (moderate deviation)	Likely to cause some damage, disruption or breach of controls. Senior management attention needed and management responsibility specified; Treatment plans to be developed and reported to Executive Management and risk committee.
Undesirable	Likely to threaten the survival or continued effective functioning of the institution, either financially or politically. Immediate action required; Must be managed by senior management with a detailed treatment plan reported to Executive Management and Risk committee.

Table 3: Risk Tolerance Levels and Descriptions

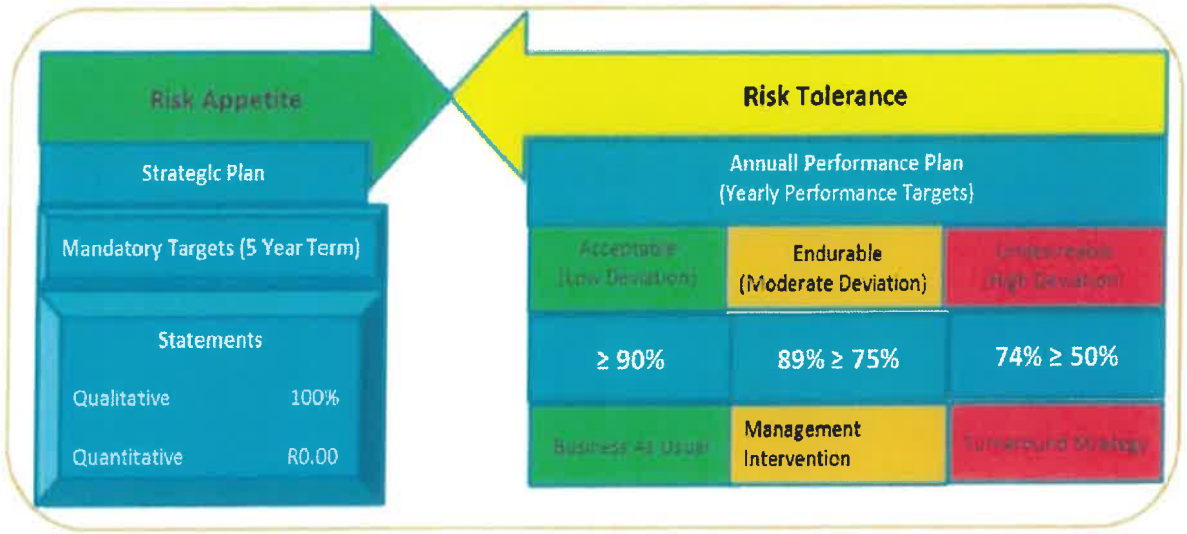

Figure 3: Planning for Risk Appetite and Tolerance

9.3 Selecting and Applying the DR&PW Risk Threshold

9.3.1 After rigorous deliberations and analysis of the Strategic Risk Register the Executive Management team of the Northern Cape Department of Roads and Public Works opted to set its appetite and tolerance levels with reference to the root causes of the risks, historical information, existing controls and the current fiscal climate.

9.3.2 Furthermore, the use of analysis of available information pertaining to the risks (Principle 7) is the best option for the Department considering the nature of its mandate, which is to support various stakeholders, thus resulting in the Department having to consider the institutional reputation should any of the risks materialize.

9.3.3 The risk appetite and tolerance levels should be reviewed annually together with the Department's targets and available resources to determine the Department's risk bearing capacity. Risk appetite and tolerance levels should be revised as more reliable information becomes available.

9.4 Risk Appetite and Risk Tolerance Monitoring

The CRO will request all officials responsible for the indicator to complete and submit the required information on a quarterly basis prior to the scheduled meetings of the RMC.

10. MONITORING AND EVALUATION (M&E) OF THIS POLICY FRAMEWORK

10.1 The Directorate Internal Audit and Risk Management, supported by the departmental Monitoring and Evaluation (M&E) Unit shall, on behalf of the HOD/AO, ensure amongst others, the following:

a) Efficient and effective implementation of this policy framework.
b) The accessibility of this policy framework to the intended stakeholders.
c) The implementation of measures to limit the possible abuse of this policy framework.
d) Submission of the required Monitoring and Evaluation (M&E) Reports related to the implementation of this policy framework.
e) Development of the necessary tools and processes to assess the outcome of this policy framework's implications for all the stakeholders.

11. POLICY FRAMEWORK REVIEW AND AMENDMENT

11.1 This policy framework is effective from date of signature.

11.2 The assessment to determine the effectiveness and appropriateness of this policy framework will be done five (5) years after its effective date. The assessment could be performed earlier than five (5) years to accommodate any substantial structural or other institutional changes at the DR&PW or any change required by law.

11.3 If and when any provision of this policy framework is amended, the amended provision will supersede the previous one.

11.4 Deviations from this policy framework must be approved by the Accounting Officer (AO) of the DR&PW.

12. VIOLATION AND ENFORCEMENT

12.1 Any failure to comply with this policy framework will be viewed as a serious disciplinary transgression and could lead to disciplinary action taken against the offending employee(s) in terms of the Public Service Regulations and Code of Conduct, as well as the DR&PW Compilation of Policies on Fraud, Corruption and Ethics Management, 2020, called *The Plan*.

12.2 Any employee that contravenes the provisions of this policy framework shall be charged with misconduct and/or fraud and corruption and will be held liable for any damages suffered by the State as a result of non-compliance.

12.3 Furthermore, those employees found to have connived or committed irregularities, including fraud and/or corruption and related matters, may be summarily dismissed from the Public Service.

12.4 Individuals who have been found guilty of violating this policy framework shall be prohibited from conducting any future business with the State; and, depending on the severity of the offence, legal action may be taken against the perpetrator(s); and if it is discovered that fraud and/or corruption was involved, the case will be reported to the SAPS for investigation and prosecution.

13. APPROVAL OF THE POLICY AND DATE OF EFFECT

This Policy Framework is Approved /~~Not Approved~~

Comments:

.....

.....

.....

.....

28.02.2025

DR. J. MAC KAY
ACCOUNTING OFFICER

DATE

ANNEXURE A: Strategic Risks with Tolerance Levels

No	Strategic risk	Risk appetite statement	Risk Tolerance		
			Acceptable (low deviation)	Endurable (moderate deviation)	Undesirable
1	Increase in Accruals	No appetite (Zero) for accruals that arise from **goods and services**	**Maximum of 5%** of department's payments (Refer to TR 6.4.1 (c)	N/A – (against the provisions of the TR)	N/A – (against the provisions of the TR)
		The department has a low appetite of accruals arising from **capital projects**	All invoices eligible for the roll over process (Refer to TR 6.4.1 (a)	Invoices where roll over requests are declined by Provincial Treasury	N/A – (against the provisions of the PFMA & TR)
Strategy			Business as usual	Require Management intervention	Develop turnaround strategy

No	Strategic risk	Risk appetite statement	Risk Tolerance		
			Acceptable (low deviation)	Endurable (moderate deviation)	Undesirable
2	Irregular Expenditure	No appetite (Zero) toward Irregular Expenditure	As per provision of PFMA Section 38(c)	N/A – (against the provisions of the PFMA)	N/A – (against the provisions of the PFMA)

Strategy			Business as usual	Require Management intervention	Develop turnaround strategy
No	Strategic risk	Risk appetite statement	Risk Tolerance		
			Acceptable (low deviation)	Endurable (moderate deviation)	Undesirable
3	**Litigation**	No appetite (Zero) for litigation resulting from contractual disputes	Contractual disputes where investigations did not reveal any wrong doing/ negligence	Circumstances where the dept lost cases Unavoidable contractual disruptions	Contractual disputes resulting from negligence
4		The department has a low appetite on litigation resulting from potholes claims	Claims on roads that are not maintained due to the insufficient maintenance budget	Claims on roads known to be poorly maintained by the department	Claims from roads where poor workmanship by the service providers/ officials can be proven
5	**Deterioration of the road network**	Low appetite for the deterioration of the existing road network	65% + of the VCI	50% to 64% of the VCI	VCI below 49%

Strategy	Business as usual	Require Management intervention	Develop turnaround strategy

No	Strategic risk	Risk appetite statement	Risk Tolerance		
			Acceptable (low deviation)	Endurable (moderate deviation)	Undesirable
6	**Accountability over ICT Business Disruptions**	The department has a low appetite towards business accountability and productivity The department has a low appetite towards business disruptions	ICT Steering Committee sitting as per Terms of Reference (Quarterly)	3 meetings	2-0 meetings
7			**Business disruption due to man-made and natural disasters:** 1-2 days: Circumstances where departmental buildings are not accessible or road/building closures by protests	3-5 days: business continuity processes must be invoked	6 days and more: business continuity processes must be up and running
Strategy			Business as usual	Require Management intervention	Develop turnaround strategy

No	Strategic risk	Risk appetite statement	Risk Tolerance		
			Acceptable (low deviation)	Endurable (moderate deviation)	Undesirable
8	High vacancy rate	The Department has a low appetite for delays in filling of critical posts	10% vacancy rate	11 % to 20% vacancy rate	21% and above vacancy rate

Strategy			Business as usual	Require Management intervention	Develop turnaround strategy
No	Strategic risk	Risk appetite statement	Risk Tolerance		
			Acceptable (low deviation)	Endurable (moderate deviation)	Undesirable
9	Failure to reach set indicators	No appetite (Zero) for not reaching job opportunities as per set targets	As per the determination set by Department of Roads & Public Works	To prepare a catch-up plan	N/A – (non achievement is against the determination of job targets)

Strategy			Business as usual	**Require Management intervention**	Develop turnaround strategy
No	Strategic risk	Risk appetite statement	Risk Tolerance		
			Acceptable (low deviation)	Endurable (moderate deviation)	Undesirable
10	Delays in planning and completion of PW and Infrastructure projects	Low appetite for late completion of Infrastructure projects	Within the provision JBCC (Joint Building Contracts Committee) 21 days payment by client departments	As per the provisions of Treasury Regulation & PFMA (Refer to TR 8.2.3 – 30 day's rule)	N/A – (against the provisions of the PFMA & TR)

Strategy	Business as usual	Require Management intervention	Develop turnaround strategy

ANNEXURE B: Risk Appetite and Risk Tolerance Statement Methodology

The following practical guidelines represent a straightforward methodology to develop a robust Risk Appetite and Tolerance Statement that aligns with the DR&PW's objectives, provides clear direction for decision-making processes, and enhances overall risk management practices.

1) Identify Key Risks relevant to the DR&PW's Service Delivery Mandate and Strategic Objectives

1.1 When crafting a Risk Appetite and Tolerance Statement, it is essential to identify the key risks that are most relevant to the Department's Service Delivery Mandate and Strategic Objectives. This step will enable a comprehensive understanding of the potential challenges the DR&PW may face and will facilitate the development of strategies to mitigate those risks effectively.

1.2 In order to identify these key risks, start by conducting a thorough analysis of the departmental Service Delivery Mandate. Identify and analyse any specific trends or developments that could impact the Department's operations. Consider the unique characteristics of the departmental Service Delivery Environment and the DR&PW's strategic objectives. By understanding these factors, the areas where risks are most likely to arise can be pinpointed.

1.3 Once the key risks have been identified, they have to be categorized based on their potential impact on the DR&PW. This categorization will allow for prioritisation in terms of which risks require immediate attention and which ones can be managed over time.

2) Clearly Define desired Levels of Risk-taking aligned with Strategic Goals

2.1 A well-written Risk Appetite and Tolerance Statement should clearly define the desired levels of risk-taking that align with the Department's strategic goals. It serves as a guiding principle for decision-making processes across all levels and programmes of the DR&PW.

2.2 In order to define these desired levels, first assess how much risk the DR&PW is willing to undertake in pursuit of its objectives. Consider both short-term and long-term goals when determining this threshold. For instance, if one of the departmental objectives is the stimulation of rapid economic

growth, higher levels of risk may need to be tolerated in comparison to a department focusing on economic stability.

2.3 Next, establish specific parameters for each category of risk identified earlier. These parameters should outline acceptable ranges within which decisions can be made without exceeding the defined risk appetite. Be sure to include quantitative metrics whenever possible so as to enable stakeholders to easily understand and measure adherence to the stated limits.

3) Ensure the Statement is Concise, Measurable and Easily Understood by all Stakeholders

3.1 When drafting a Risk Appetite and Tolerance Statement, it is crucial to ensure that it is concise, measurable, and easily understood by stakeholders. This clarity will facilitate effective communication and decision-making throughout the Department.

3.2 To achieve conciseness in Enterprise Risk Management (ERM), it is important to use clear and straightforward language. Avoid unnecessary jargon or complex terminology that may confuse readers during the risk assessment process. Keep the statement focused on the essential points without sacrificing necessary details. This approach helps in identifying appropriate risk levels and determining if a particular risk is low or high.

3.3 Measurability is another critical aspect of a Risk Appetite and Tolerance Statement. It allows stakeholders to assess whether their actions are within the defined boundaries. Incorporate specific metrics or indicators that can be used to evaluate risk levels and monitor compliance over time.

3.4 Lastly, make sure the statement is easily understood by all relevant stakeholders. Consider their varying levels of familiarity with risk management concepts and tailor your language accordingly. Use examples or analogies to illustrate key points and ensure everyone can grasp the intended meaning.

the dr&pw

Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

INTERNAL MEMO

DATE:	06 FEBRUARY 2025	**REF. NO.**	
TO:	THE DIRECTOR: STRATEGIC PLANNING MANAGEMENT		
FROM:	THE DEPUTY DIRECTOR: POLICY AND RESEARCH MANAGEMENT SERVICES		
SUBJECT:	**SUBMISSION FOR APPROVAL OF THE REVIEWED DEPARTMENTAL POLICY FRAMEWORK ON RISK APPETITE AND RISK TOLERANCE, VERSION 2**		

Dear Ms. Bekebeke

Please find attached the final draft of the reviewed departmental Policy Framework on Risk Appetite and Risk Tolerance, version 2, for your perusal and consideration. This policy document has been circulated departmentally for consultation and inputs and it is hereby submitted for approval by the Head of Department (HOD).

Regards,

Mr. T. Ferreira
Deputy Director: Policy and Research Management Services

the dr&pw

Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

INTERNAL MEMO

DATE:	06 FEBRUARY 2025	**REF. NO.**	
TO:	THE HEAD OF DEPARTMENT (HOD)		
FROM:	THE DIRECTOR: STRATEGIC PLANNING MANAGEMENT		
COPY:	THE CHIEF DIRECTOR: CORPORATE AND MANAGEMENT SERVICES		
SUBJECT:	**SUBMISSION FOR APPROVAL OF THE REVIEWED DEPARTMENTAL POLICY FRAMEWORK ON RISK APPETITE AND RISK TOLERANCE, VERSION 2**		

Purpose

1. The purpose of this submission is to obtain approval from the Head of Department (HOD) for the operationalization within the Department of the reviewed departmental Policy Framework on Risk Appetite and Risk Tolerance, version 2.

Recommendations

1. The above mentioned policy framework has been circulated departmentally by the Communication and Marketing Unit to consult the staff members in order to provide opportunities for inputs toward the review of the said policy framework.

2. It is therefore recommended that the HOD approve this policy framework as departmental policy.

3. Please see e-mail attached of the Evidence of Departmental Consultation.

MS. B. BEKEBEKE
DIRECTOR: STRATEGIC PLANNING MANAGEMENT
Recommended / ~~Not Recommended~~

26/02/25
DATE

MS. A. MPOTSANG
CHIEF DIRECTOR: CORPORATE AND MANAGEMENT SERVICES
Recommended / ~~Not Recommended~~

2025-02-27
DATE

DR. J. MAC KAY
HEAD OF DEPARTMENT
Policy Framework Approved / ~~Policy Framework Not Approved~~

28/2/2025
DATE

the dr&pw

Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

EVIDENCE OF CONSULTATION WITH DEPARTMENTAL STAKEHOLDERS

REVIEWED DEPARTMENTAL POLICY FRAMEWORK ON RISK APPETITE AND RISK TOLERANCE

SUBMISSION FOR APPROVAL
06 FEBRUARY 2025

TFerreira - Fwd: POLICY CONSULTATION: DRAFT DR&PW POLICY ON RISK APPETITE AND RISK TOLERANCE, VER 2

From: DRPW-Info
To: TFerreira
Date: 1/31/2025 8:40 AM
Subject: Fwd: POLICY CONSULTATION: DRAFT DR&PW POLICY ON RISK APPETITE AND RISK TOLERANCE, VER 2
Attachments: Final DRAFT DR&PW POLICY FRAMEWORK - RISK APPETITE & TOLERANCE - Ver 2 - Jan 2025.docx

DRPW-info@ncpg.gov.za
COMMUNICATION AND MARKETING SERVICES

Stay informed by logging on to the following links

ncrpw.ncpg.gov.za https://www.facebook.com/NCdrpw @NC_drpw

Department of Roads and Public Works

Tebogo Leon Tume Complex
9-11 Stokroos Street
Squarehillpark
Kimberley
8301

Tel: 053 839 2100
Fax: 053 8392290

Trendsetters in infrastructure delivery to change the economic landscape of the province'

>>> DRPW-Info 1/29/2025 9:02 AM >>>
Good day Colleagues,

Please find attached reviewed draft departmental Policy Framework on Risk Appetite and Risk Tolerance, Version 2.

You are welcome to e-mail your inputs/comments to tferreira@ncpg.gov.za and the due date for said inputs/comments is Wednesday, 05 February 2025

Thank you

DRPW-info@ncpg.gov.za
COMMUNICATION AND MARKETING SERVICES

Stay informed by logging on to the following links

ncrpw.ncpg.gov.za https://www.facebook.com/NCdrpw @NC_drpw

Department of Roads and Public Works

Tebogo Leon Tume Complex
9-11 Stokroos Street
Squarehillpark
Kimberley
8301

Tel: 053 839 2100
Fax: 053 8392290

Trendsetters in infrastructure delivery to change the economic landscape of the province'