the dr&pw

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

RISK MANAGEMENT STRATEGY

Version 2

(May 2013)

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1. DEFINITION

In this strategy, unless the context indicates otherwise

"Accounting Officer" means	The head of department.
"Audit Committee" means	An independent committee constituted to review the control, governance and risk management within the institution, established in terms of section 77 of the PFMA.
"Chief Audit Executive" means	A senior official within the organisation responsible for internal audit activities (where internal audit activities are sourced from external providers, the Chief Audit Executive is the person responsible for overseeing the service contract and the overall quality of the services provider.
"Chief Risk Officer" means	A senior official who is head of the risk management unit senior official
"Department" means	Department of Roads and Public Works (DRPW).
"Executive Authority" means	The Member of the Executive Council (MEC) of the department who is accountable to the Northern Cape Provincial legislature.
"Framework" means	The Public Sector Risk Management Framework (PSRMF).
"Inherent Risk" means	The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.
"Internal Auditing" means	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
"King III" means	The code of Corporate Governance of South Africa 2009
"Management" means	All officials of the department except the Chief Risk Officer and officials reporting to him/her.
"Other Official" means	An official other than the Accounting Officer, Management, Chief Risk Officer and his/her staff.
"PFMA" means	Public Finance Management Act (No.1 of 1999 as amended by Act No.29 of 1999
"Residual Risk" Means	The remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the remaining risk after Management has put in place measures to control the inherent risk)
"Responding to Risk" means	Risk response is concerned with the developing strategies to reduce or eliminate the threats and events that create risks.
"Risk" means	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 Management must be aware of and be prepared to exploit. This definition of "risk" also encompasses such opportunities.
"Risk Appetite" means	The amount of residual risk that the department is willing to accept.
"Risk Assessment" means	A systematic process to quantify or qualify the level of risk associated with a specific threat or event, to enrich the risk intelligence available to the department.
"Risk Champion" means	A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner, i.e deputy directors

	and assistant directors
"Risk Factor" means	Any threat or event which creates, or has the potential to create risk.
"Risk Identification" means	A deliberate and systematic effort to identify and document the department's key risk
"Risk Management" means	A systematic and formalised process to identify, asses, manage and monitor risks.
" Risk Management Committee" means	A committee appointed by the Accounting Officer to review the department's system of risk management.
"Risk Management Unit" means	A business unit responsible for coordinating and supporting the overall departmental risk management process, but which does not assume the responsibilities of Management for identifying, assessing and managing.
"Risk Monitoring" means	Monitoring concerns checking on a regular basis to confirm the proper functioning of the entire risk management system.
"Risk owner" means	The person accountable for managing a particular risk. i.e Chief Directors and Senior Managers
"Risk Tolerance" means	The amount of risk the department is capable of bearing (as opposed to the amount of risk the department is willing to bear.

2. INTRODUCTION

Risk Management is a central part of any organization strategic management. It is the process whereby an organization both methodically and intuitively addresses the risk attached to their activity and across the portfolio of activities. Risk Management is recognized as an integral part of sound organizational management and is being promoted internationally and locally as good business practice applicable to the public and private sectors.

The Risk Management Strategy of Department strengthens the risk management practices in the department. The strategy outlines a high level plan on the departments approach towards the implementation of risk management. The risk management strategy is informed by the risk management policy of the Department.

3. OBJECTIVES OF THE STRATEGY

- Advance the development and implementation of modern management practices and to support innovation throughout the department.
- Contribute to building a risk-smart workforce and environment that allows for innovation and responsible risk taking while ensuring legitimate precautions are taken to protect the public interest, maintain public trust, and ensure due diligence.
- Provide comprehensive approach to better integrate Risk management into strategic decision-making: and
- Provide guidance for the Accounting Officer, Executive Authority, Managers and Staff when overseeing or implementing the development of processes, systems and techniques for managing risk, which are appropriate to the context of the department or public entity.
- To allocate clear codes roles, responsibilities and accountabilities for risk management.

4. LEGISLATIVE FRAMEWORK

The following instruments provide the legal framework for management's and other officials responsibility for risk management within the department, namely:-

4.1 Section 38(1)(a)(i) of the PFMA

4.2 Section 45 of the PFMA

4.3 Public Service Anti - Corruption Strategy (2000)

4.4 Section 2 (1) (a) & (b) of the Protected Disclosures Act of 2000

4.5 Prevention of Combating of Corrupt Activities Act 2004

4.6 Treasury Regulations and Guidelines

4.7 King III report of 2009

4.8 Batho Pele Principles

4.9 Constitution of the Republic of South Africa

4.10 Public Sector Risk Management Framework

5. RISK MANAGEMENT PLAN

The Risk Management Implementation plan outlines the Departments Risk Management activities that will be carried out. It further gives effect to how the Risk Management policies, strategies and best practices will be implemented to ensure a wider coverage of risks to which the Department is exposed.

6. FRAUD PREVENTION PLAN

The department will develop a fraud prevention strategy and plan to guide the implementation of the fraud prevention policy.

7. STRUCTURAL CONFIGURATION

Standard	Responsibility	Frequency
Oversight Responsibilities:		
The Audit and Risk Committee will review risk management progress at least quarterly.	Chairperson of Risk Management Committee (RMC)	Quarterly
The executive management committee (EXCO) Will review risk management progress at least quarterly	Accounting Officer (AO)	Quarterly
The Management Committee(MANCO) will oversee the implementation of risk management and will meet monthly. Risk management should be a standing agenda item for all meetings to the management committee	AO and Chairperson of RMC	monthly
Reporting Responsibility		
The CRO will submit risk management reports to the RMC who will submit to the AO and will in turn submit to Audit Committee on a quarterly basis. These reports will focus on the following: • The strategic risk; • Progress with implementation corrective action per risk • Any new and emerging risk, risk developments, including incidents.	AO and Chief Risk Officer (CRO)	Quarterly
Risk Assessment Responsibilities		
The accounting officer will ensure that a complete review of the risk of department is done at least once a year.	AO	Annually
Executive directors and senior managers will	All executive	Monthly

review the risk registers and update the registers' contents to reflect any changes without the need to formally reassessment of the risks.	Directors, Senior Managers and CRO	

Standard	Responsibility	Frequency
Risk Mitigation responsibilities:		
The audit and risk committee will receive and consider management's report concerning the effectiveness if internal controls on a quarterly basis	Chairperson	Quarterly
The EXCO will consider executive directors and senior managers report regarding the performance of internal controls for those risks in the register which they are responsible for.	AO	Monthly
The risk register will contain action plans for improving risk controls and risk interventions. Progress in implementing these actions should be monitored.	Executive Directors And Risk Officer	Monthly
Governance Responsibilities		
Each risk will have a nominated owner, who will be responsible for the following : • Updating the risk information; • Providing assurance regarding the risk controls; • Coordinate the implementation of action plans for managing the risk; • Reporting on any developments regarding the risk.	AO; Executive Directors and Senior Managers	Monthly
Internal audit will use the outputs of risk assessment to compile the internal audit plan, and will investigate the effectiveness of risk mitigating controls.	Head of Internal Audit	Per approved IA plan
The audit and risk committee will facilitate a review if the effectiveness of the entity's risk	Chairperson	Annually

mitigating processes.		
A business continuity plan will be developed, implemented and tested annually to ensure continuous maintenance.	AO and Manager; Policy	Annually
The Fraud Prevention and Anti Corruption plan should be implemented and monitored. Monthly incidents should be reported to AO.	AO and CFO	Monthly

8. ACCOUNTABILITY, ROLES AND RESPONSIBILITY.

The following persons are responsible for managing of risk within the department, namely:-

8.1 Executive Authority(EA)

The responsibilities of the Executive Authority with regards to risks management are to:

- ensure that the department's strategies are aligned to its government mandate;
- obtain assurance from management that the department's strategies were identified and assed, and are properly managed;
- assist the accounting officer to deal with fiscal, intergovernmental, political and other risks which are beyond his direct control and influence;
- insist on the achievement of objectives, effective performance management and add value for money;
- Raise awareness of and concurring with the department's risk appetite and tolerance levels;
- Provide oversight over the department's portfolio view of risks and consider it against the department's risk tolerance;
- Require that management should have an established set of values by which every employee should abide by;
- Insist on accountability

8.2 Accounting Officer (AO)

The responsibilities of the Accounting Officer with regard to risks management are to:

- Set the tone at the top by supporting Enterprise Risk Management (ERM) and allocating resources towards the implementation thereof;
- Establish the necessary structures and reporting lines within the department's to support ERM;
- Approve the risk management strategy, risk management policy, risk management implementation plan and fraud management policy;
- Approve the department's risk appetite and risk tolerance;
- Influence a departmental "risk awareness" culture;
- Approve the department's code of conduct and hold management and officials accountable for its adherence;
- Hold management accountable for designing, implementing, monitoring and integrating risk management principles to their day – to – day activities;
- Ensure that a conducive control environment exists to ensure that that identified risks are proactively managed;
- Leverage the Audit Committee, Internal Audit, Risks Management Committee and appropriate structures for improving the overall state of risk management;
- Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management

8.3 Risk Management Committee (RMC)

The responsibilities of the RMC with regard to risks management are to:

- Review and recommend for approval of the accounting officer the risk management policy, strategy, implementation plan and the department's risk appetite, ensuring that limits are:

  a) Supported by a rigorous analysis and expert judgement;

b) Expressed in the same values as the key performance indicators to which they apply;

c) Set for material risks individually, as well as in aggregate for particular categorisation of risk; and

d) Consistent with the materiality and significance framework

- The department's ability to withstand significant shocks;
- The department's ability to recover financially and operationally from significant shocks;
- Evaluate the extent and effectiveness of integration of risk management within the department;

- Assess implementation of risk management policy, strategy and implementation plan;
- Evaluate the effectiveness of the mitigating strategies implemented to address the material risks of the department;
- Review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations;
- Develop its own key performance indicator's for approval by the accounting officer;
- Interact with the Audit Committee to share information relating to material risks of the department; and
- Provide timely and useful reports to the accounting officer on the state of risks management together with accompanying recommendations to address any deficiencies identified by the Committee.

In instances where the scale, complexity and geographical dispersion of the department's activities dictate the need for RMC to work through sub – committees, the RMC should ensure that:-

- Approval is obtained from the accounting officer for the establishment of sub – committees
- The terms of reference of the sub – committees are aligned to that of the RMC; and
- The RMC exercises control over the functioning of the sub – committees.

8.4 Chief Risk Officer (CRO)

The responsibilities of the CRO with regard to risks management are to:

- Work with senior management to develop the department's vision for risk management;
- Develop, in consultation with management, the department's risk management framework incorporating, inter alia, the
  a) Risk management policy;
  b) Risk management strategy;
  c) Risk management implementation plan; risk management methodology;
  d) Risk appetite and tolerance; and
  e) Risk classification.
- Communicate the department's risk management framework to all stakeholders in the department and monitoring its implementation;
- Facilitate orientation and training for the RMC;
- Training stakeholders in their risk management functions;
- Continuously driving risk management to higher levels of maturity;
- Assist management with risk identification, assessment and development of response strategies;
- Monitor the implementation of response strategies;

- Collate, aggregate, interpret and analyse the results of risk assessment to extract intelligence;
- Report risk intelligence to the Accounting Officer and RMC; and
- Participate with internal audit, management and Auditor – General in developing the combined assurance plan for the department.

8.5 Management

The responsibilities of Management with regard to risks management are to:

- Execute their responsibilities in the risk management strategy;
- Empower officials to perform effectively in their risk management responsibilities through communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Align the functional risk management methodologies and processes with the department's process;
- Devoting personal attention to overseeing the management of key risk within their area of responsibility;
- Maintain a cop-operative relationship with the RMC and Risk Champion;
- Provide risk management reports;
- Present to the RMC and Audit Committee as requested;
- Maintain proper functioning of the control environment within their area of responsibility;
- Monitor risk management within their area of responsibility; and
- Hold officials accountable for their specific risk management responsibilities.

8.6 Other officials

The responsibilities of other officials with regard to risks management are to:

8.8 Internal Auditing

The responsibilities of internal auditing with regard to risks management are to:

- Provide an independent, objective assurance on effectiveness of the department's system of risk management;
- Evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary; and
- Develop its internal audit plan on the basis of key risks areas

In terms of the International Standards for the Professional Practice of Internal Audit, determining whether risk management processes are effective is a judgement resulting from the Internal Audit Auditor's assessment that;

- Department's objectives support and align with the department's mission;
- Significant risks are identified and assessed;
- Risk responses are appropriate to limit risk to an acceptable level; and
- Relevant risk information is captured and communicated in a timely manner to enable the Accounting Officer, RMC and other officials to carry out their responsibilities.

8.9 External Audit

The responsibilities of external audit with regard to risks management are to:

- Determine whether the risk management policy, strategy and implementation plan are in place and are appropriate;
- Assess the implementation of the risk management policy, strategy and implementation plan;

- Review the risk identification process to determine if it is sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks;
- Review the risk assessment process to determine if it sufficiently robust to facilitate timely and accurate risk rating and prioritisation; and
- Determining whether the management action plans to mitigate the key risks are appropriate, and are being effectively implemented.

8.10 Provincial Treasury

The responsibilities of provincial treasury with regard to risks management are to:

- Prescribe uniform norms and stands;
- Monitor and assess the implementation of the PFMA;
- Assist the department in building its capacity for efficient, effective and transparent financial management;
- Enforce the PFMA;
- Monitor and assess among other things, the implementation of risk management, including any prescribed norms and standards
- Assist the department in building its capacity for, among other things, efficient. Effective and transparent management; and
- Enforce the legislation and any prescribed norms and standards for, among other things, risk management in the department.

8.11 Audit Committee

The responsibilities of the audit committee with regard to risks management are to:

- Review and recommend disclosures on matters of risk in the annual financial statement;
- Review and recommend disclosures on matters of risk and risk management in the annual report;

- Provide regular feedback to the accounting officer on the adequacy and effectiveness of risk management in the department, including recommendations for improvement;
- Ensure that the internal and external audit plans are aligned to the risk profile of the department;
- Satisfy itself that it has appropriately addressed the, financial reporting risk, risk of fraud, internal financial controls and IT risks as they relate to financial reporting; and
- Evaluate the effectiveness of Internal Audit in its responsibilities for risk management

9. RISK MANAGEMENT ACTIVITIES (MODALITIES)

In implementing the departmental risk management process, the Department will undertake the following:

9.1 Establish a context

- **Understanding the objectives**- Strategic objectives of the Department should be understood together with the key performance indicators and Quarterly or medium term targets. It is vital that there should be alignment of objectives from strategic level to process level.
- **Selection of criteria**- This is the strategic, organizational and risk management context against which of the risk management process in the Department will take place. Criteria against which risk will be evaluated will be established and the structure of the risk analysis should be defined.

9.2 Identification of risk

- To ensure the comprehensiveness of risk identification the Department will identify risk factors through considering both internal and external factors through:
  - Strategic risk identification;
  - Operational risk identification;
  - Project risk identification

The risk identification process will be inclusive.

9.3 Analyze and evaluate Risk

- The impact and likelihood of risks at pre and post control level will be assessed. The outcome of this evaluation from each risk will be compared to the risk appetite to determine if the current exposure is acceptable or unacceptable.

9.4 Applicability

Various response strategies to treat the risks will be explored depending on the level of risk. For higher priority risk the department will develop and implement specific risk management plans. Lower priority risks may be accepted and monitored and controls will be developed and monitored.

Risk Treatment approaches that are considered by the Department are as follows:

- **Risk Avoidance** – One method of dealing with risk is to avoid the risk by not proceeding with the activity likely to generate the risk. Risk avoidance should only occur when control measures do not exist or do not reduce the risk to an acceptable level.
- **Risk Transfer** – Part or most of a risk may be transferred to another party so that responsibility is shared. Mechanisms for risk transfer include contracts, insurance and partnerships. Risk can never be completely transferred because there is always the possibility of failures that may impact on the institution.
- **Risk Control** – Risk control involves identifying options for treating or controlling risk, in order to either reduce or eliminate negative consequences, or to reduce the likelihood of an adverse occurrence.
- **Risk retention** – low or tolerable risks may be accepted. Acceptance means the institution chooses to accept that the risk exists, either because the risk is at low level or the cost of treating the risk will outweigh the benefit. Risk retention does not mean that nothing is done in order to deal with the risk, but rather that the risk by way of routine procedures that already exists, re-focusing

attention on the risk and re-emphasizing the importance of existing policies and procedures.

9.5 Monitor and Review

The oversight and review management system that affects risk management in the department should be developed. Monitoring and review will occur concurrently throughout the risk management process.
Monitoring activities will focus on the following:

- Effective execution of responsibilities;
- Monitoring response strategies;and
- Monitoring the correlation between risk and service delivery impact.

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9.6 Communication Consultation

A proper communication plan with internal and external stakeholders at each stage of the risk management process as well as on the process as whole should be developed. This will be executed through:

- Dissemination of relevant information; and
- Communication of responsibilities and actions.

9.7 Control Monitoring

The department will use the following controls to mitigate risk:

- Develop concise, written policies and procedures;
- Institute sound general financial management and accounting controls;
- Institute security safeguards to protect the inadvent release of confidential information.
- Establish ongoing educational programmes;
- Create and monitor a culture which is is intolerant to fraud and corruption;
- Take appropriate action against fraudsters and corrupt individuals;
- Management oversight – risk management will form an intergral part of performance agreements of senior managers; and
- Fraud prevention and RMC to maintain and review strategy as and when required.

10. EVALUATION OF RISK MANAGEMENT EFFECTIVENESS

10.1 Evaluation of risk management effectiveness is vital to maximise the value created through risk management practices;

10.2 The department will strive to achieve a mature risk management regime in order to realise its risk management goals and objectives;

10.3 The department will periodically evaluate its risks by measuring outcomes against preset key performance indicators

11. Assurance Activities

The Provincial Internal Audit and Provincial Risk Management will examine the departmental risk environment taking into consideration the identified risks of the department and issue reports to the Accounting Officer indicating progress made with regard to the risk identified.

12. Implementation of Risk Management Strategy

In order for the risk strategy to be implemented within the Department effectively, the implementation plan will be developed taking into consideration important aspects stated on the strategy.

13. APPROVAL

Mr. K. NOGWILI
ACCOUNTING OFFICER

Date: 18.06.2013

APPENDIX - 1

RATING GUIDES: INHERENT RISK AND PERCEIVED CONTROL EFFECTIVENESS

INHERENT RISK RATING GUIDE

Likelihood rating guide		
Score	**Likelihood**	**Occurrence**
5	Common	The risk is already occurring or is likely to occur more than once in the next 12 months
4	Likely	The risk is likely to occur at least once within the next 12 months
3	Moderate	The risk is likely to occur in the next 2-3 years
2	Unlikely	The risk is unlikely to occur in the next 3 years
1	Rare	The risk is unlikely to occur even in the long term

Impact rating guide		
Score	**Impact**	**Consequences**
5	Critical/ Catastrophic	The risk will have a significant impact on the achievement of objectives
4	Major	The risk will have a high impact on the achievement of objectives
3	Moderate	The risk will have a moderate impact on the achievement of objectives
2	Minor	The risk will have a low impact on the achievement of objectives
1	Insignificant	The risk will have a negligible impact on the achievement of objectives

Risk ranking	Priority
1 -7	Low
8 – 14	Medium
15 - 25	High

RATING GUIDE FOR PERCEIVED CONTROL EFFECTIVENESS

CONTROL RATING	CONTROL STRENGTH	DESCRIPTION	CONTROL WEIGHT
5	Very strong	The controls implemented are adequate and effective to mitigate the potential risk should the risk occur. The occurrence of the risk will result in a low impact in the presence of the control identified	0.1
4	Strong	The control implemented is adequate but effectiveness needs improvement	0.3
3	Fair	The control implemented is fair and needs improvement	0.5
2	Weak	The control implemented is weak and inadequate to mitigate the risk identified. The risk may not be adequately mitigated should it occur and the organization may suffer considerable consequences	0.7
1	Very weak	Control identified is not adequate/not implemented/there is no control to mitigate the risks identified	0.9