LIMPOPO

PROVINCIAL GOVERNMENT

REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF PUBLIC WORKS

Policy Name	**Risk Management Policy**
The revision/ version of the Policy	**01**
Domain	**Corporate Governance and Risk Management**

1. BACKGROUND

The Risk Management Policy is a systematic guide to the implementation of effective risk management processes within the Department. It is aimed at providing a systematic approach to risk management within DPW and also create an environment that allows for risk taking while ensuring that the public interest and investment is protected.

Risk Management is recognized as an integral part of responsible management and the department therefore adopts a comprehensive approach to the management of risk. The features of this process are outlined in the Departmental Risk Management Strategy. It is expected that all directorates and sub-directorates, operations and process will be subject to the risk management strategy.

It is the intention that these directorates and sub-directorates will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable. Effective risk management is imperative to the department to fulfil its mandate, the service delivery expectations of the public and the performance expectations within the department.

The realization of our strategic plan depends on us being able to take calculated risks in a way that does not jeopardize the direct interests of stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our service delivery environment, as well as take informed decisions under conditions of uncertainty.

2. RISK MANAGEMENT POLICY STATEMENT

At the Limpopo Department of Public Works (DPW) we are committed to the optimal management of risk in order to achieve our vision, our principal tasks and key objectives and to protect our core values.

The Head of Department has committed the entity to a process of risk management that is aligned to the principles of the King III Report on Corporate Governance 2002 (King 2) and the Public Finance Management Act (PFMA). It is expected that all core / support services will be subject to the Risk Management Policy.

Effective risk management is imperative to DPW with reference to our risk profile. The realisation of DPW's strategy depends on the entity being able to take calculated risks in a manner that does not jeopardise the direct interests of stakeholders. Sound management of risks will enable management to anticipate and respond to changes in the education and training environment, as well as to enable them to make informed decisions under conditions of uncertainty.

An enterprise wide approach to risk management will be adopted by DPW, which means that every identified risk in each part of the entity will be included in a structured and systematic process of risk management. All identified key risks will be managed within a unitary framework that is aligned to DPW's corporate governance responsibilities.

It is expected that risk management processes will become embedded in all DPW's systems and processes to ensure that our responses to risk remain current and dynamic.

All key risks associated with major changes and significant actions by DPW will also fall within the processes of risk management. The nature of our risk profile demands DPW adopts a prudent approach to corporate risk and our decisions regarding risk tolerance as well as risk mitigation will reflect this. Nonetheless it is not the intention to slow down DPW's growth with inappropriate bureaucracy. Controls and risk interventions will be chosen to assist us in fulfilling our commitments to stakeholders.

Every employee has a part to play in this important endeavour and we look forward to working with you in achieving these aims.

3. LEGAL MANDATE

Public Finance Management Act (PFMA)

PFMA act 1 of 1999 as amended by Act 29 of 1999 requires the Accounting Officer (Director-General) of a Department under Section 38, Paragraph 1(a) (i) to ensure that the Department has and maintains an effective, efficient and transparent system of risk management.

Treasury Regulations

Section 3.2.1 of Treasury Regulations issued in terms of the PFMA also requires that *"the Accounting Officer must ensure that a risk assessment is conducted regularly to identify emerging risks of the Department. A **risk management strategy,** which must include a **fraud prevention plan**, must be used to direct internal audit effort and priority, and to determine the skills required of managers and staff to improve controls and to manage these risks. The Strategy must be clearly communicated to all officials to ensure that the risk management strategy is incorporated into the language and culture of the institution."*

King III Report on Corporate Governance

Chapter 4 of the King III Report on Corporate Governance in South Africa (effective 1 March 2010) requires the Department to implement a process of effective risk management.

The Risk Management Directorate within the Chief Directorate: Strategic Management is tasked to co-ordinate risk management activities within the Department in a systematic way. The Department has developed an integrated risk management framework and will implement an effective risk management process that will ensure that the Department's risks are identified and effectively managed on a continuous basis.

4. SCOPE

This policy is applicable to and covers the entire Department, including its regional offices and major programmes of the State where the Department assumes management responsibility.

Risk Management has been traditionally viewed as only a financial risk management function. Others viewed it as a function dealing with insurable risks as well as occupational

health and safety; and security. Enterprise risk management approach is a view that takes into account all the above aspects of risk management. Risk Management processes will target commitment of the existing management and an improved control environment to address the high risk areas within the Department, which are strategic, financial, information technology, human and environmental and fraud and corruption.

The Integrated Risk Management Framework of the Department is a systematic process to understand, manage and communicate risk from an organisation-wide perspective and optimizing strategic risk-taking decisions that contribute to the achievement of the Department's overall objectives.

5. Policy Controls

The following controls shall be implemented by DPW management to ensure proper implementation of this Risk Management Policy:

i. Risk Management Approach

DPW senior management will establish a general risk assessment approach to determine the following in relation to risk assessments:

- Scope and boundaries (universe);
- Methodology to be adopted;
- Computer solution to be utilized ,and
- Responsibilities for risk assessment and management.

ii. Risk Identification

All heads of units and branches in the Department and regional office shall be responsible for identification of strengths and weaknesses facing their activities. Risk assessment shall include the identification of the causes of the risks. The risks shall be identified through discussions, workshops and interviews facilitated by the Risk office of the Department in conjunction with Internal Audit Unit.

iii. Risk Evaluation

The risk assessment approach to be adopted shall ensure that all risks identified are properly analyzed both quantitatively and qualitatively. Senior Management shall also decide on the prioritization of risks, key risk indicators and the acceptable risk tolerance levels for the Department.

iv. Risk Management/Action Plans

The risk assessment approach shall also provide for definition of action plans to ensure the cost effective controls and security measures mitigate exposure to risks on a continuing basis. The risk management plans shall inter alia, record the following:

- The risks that have been identified
- The planned controls for those risks;

- The persons responsible for implementing and managing the controls and monitoring the effectiveness thereof;
- The means of monitoring the effectiveness of risk controls; and
- The effectiveness of controls

v. Critical Success Factors

For this risk management policy to be effectively implemented, the following risk management processes shall be performed:

- This risk management policy shall define risk acceptance and risk appetite of the Department;
- Roles and responsibilities for the risk management process shall be clearly defined;
- The focus of risk assessment is primarily on real threats and less on theoretic or generic ones;
- Brainstorming sessions and root cause analyses leading to risk identification and mitigation are routinely performed; and
- The risk management strategy is reviewed by ARMC

vi. Key Performance Indicators

The following will serve as key performance indicators for risk management within the Department:

- Number of risk management meeting and workshops;
- Number of risk management projects;
- Number and frequency of risk monitoring reports;
- Extent to which risks are embedded in the strategic planning and business planning process of the Department.

6. Risk Management Principles

DPW exists to accomplish government objectives of better life through creating jobs, poverty alleviation, fight against HIV & AIDS and effective management of state building and structures within its custodianship. To ensure that value is created, preserved and enhanced by management decision in all activities, from setting strategy, to operating the Department's day-to-day business processes.

Risk management supports value creation by enabling management to deal effectively with potential future events that create uncertainty and respond in a manner that reduces the impact and likelihood of unfavorable outcomes or surprises.

The following are key risk management principles which are essential for a successful risk management process in the Department:

- The annual strategic planning and budgeting processes shall include risk assessments;
- Risk assessments will be conducted once annually and whenever there have been changes in environment;

- Risk assessments will be conducted on an on-going basis for capital projects, tender processes, and other major internal projects;
- All material risks will be assessed;
- The roles and responsibilities for risk management for head office and regional management staff shall be clearly documented and communicated; and
- Weaknesses in the management of high risk categories shall be corrected taking into account the cost and benefits of the method of correction.

KEY PRINCIPLES IN RISK MANAGEMENT

We subscribe to the **fundamental principles** that all resources will be applied economically to ensure:

- The highest standards of service delivery;
- A management system containing the appropriate elements aimed at minimising risks and costs in the interest of all stakeholders;
- Education and training of all our staff to ensure continuous improvement in knowledge, skill and capabilities which facilitate consistent conformance to the stakeholders expectations; and
- Maintaining an environment which promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.
- An entity-wide approach to risk management will be adopted by the department, which means that every key risk in each part of the department will be included in structured and systematic processes, ensuring that our responses to risk remain current and dynamic. All risk management efforts will be focused on supporting the department's objectives. Equally, they must ensure compliance with relevant legislation, and fulfil the expectations of employees, communities and other stakeholders in terms of corporate governance.

7. Responsibilities for Risk Management

7.1. The Head of Department/Accounting Officer

The Head of Department shall be the key driver of the risk management architecture within the Department. He/she has a responsibility to support and set the tone for the implementation of an effective risk management process.
The Head of Department will report in the annual report of the Department on how well the Department is doing in terms of risk management systems.

7.2. Department Executive Committee (EXCO)

EXCO or Top Management has the responsibility for disclosure on effectiveness of risk management process implemented by the Department in the annual report of the Department.
It is responsible for ensuring that a risk assessment is conducted on a regular basis following significant changes to the Department's operating environment, as well as ensuring that it (EXCO) receives and reviews reports on risk management.

The management shall consider the evaluation of its system of internal control to ensure that it caters for the following measures:

- Risk management planning informs business planning;
- Significant risks are reported upon and communicated; and
- Risk assessments are done at least once annually.

7.3. Senior Management

Senior Management is accountable to Top Management for implementing and monitoring the risk management process and integrating it with their day-to-day activities in their areas of responsibilities.

7.4. Corporate Governance & Risk Management

The role of Risk Management section within the Strategic Management Unit includes the following:

- Developing policy and strategy for risk management;
- Primary champion of risk management at strategic and operational level;
- Building risk awareness culture within the Department including appropriate training;
- Designing and reviewing processes for risk management;
- Advise on risk management issues within the Department and act as a line managers' coach working with them continuously;
- Facilitate the development of risk response processes, including contingency and business continuity programmes; and
- Preparing reports on risk for Senior Management of the Department.

7.5. Responsibilities of Internal Audit

- Provide independent assurance on the risk management processes;
- Comment on the level of risk management maturity;
- Monitor the progress of different units in the Department on managing their risks, in coordination with the Chief Risk Officer (CRO);
- Focusing the internal audit work on the material risks, as identified by management, and auditing the risk management processes across the Department;
- Provide active support and involvement in the risk management process; and
- Facilitating risk assessment and educating line staff in risk management methodologies.

7.6. Responsibilities of Risk Management Committee

The RMC is the custodian of the DPW Risk Management Policy and responsible for ensuring that it is properly implemented and reviewed where, necessary. The duties of the members of the RMC will be detailed in the RMC Charter.

- Gains thorough understanding of the risk management policy, risk management strategy, risk management implementation plan, and fraud prevention strategy of the Department to ensure they add value to the risk management process when making recommendations to improve the process;
- Reviews and critiques the risk appetite and risk tolerance, and recommends this for approval by the Accounting Officer;
- Reviews the completeness of the risk assessment process implemented by management to ensure that all possible categories of risks, both internal and external to the institution, have been identified during the risk assessment process. This includes an awareness of emerging risks pertaining to the institution.
- Reviews the risk profile and management action plans to address the risks;
- Reviews the adequacy of adapted risk responses;
- Monitor the progress made with the risk management action plan;
- Facilitates and monitors the coordination of all assurance activities implemented by the institution;
- Reviews and recommends any risk disclosures in the annual financial statements;
- Provides regular feedback to the Head of Department on the effectiveness of the risk management process implemented by the Department;
- Review the process implemented by Management in respect of fraud prevention and ensures that all fraud related incidents have been followed up appropriately;
- Reviews and ensures that the internal audit plans are aligned to the risk profile of the Department;
- Reviews the effectiveness of the internal audit assurance activities in relation to risk management processes and recommends appropriate action to address any shortcomings.

RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Audit Committee oversees the risk management and business continuity framework, management and implementation on behalf of the provincial government.

- The Audit Committee is responsible for ensuring that the Department comply with appropriate risk management and business continuity policies and practices
- To ensure that risk management and business continuity policies, procedures and framework are established, implemented and maintained
- Identify strategic and significant operational risks (in consultation with the department) that impact upon the department's objectives
- Monitor the management of strategic and significant operational risks

RESPONSIBILITIES OF MANAGEMENT

- Nominate senior staff members who shall be recognised as the portfolios Risk Management Manager and Risk Management Coordinator
- Establishing and maintaining activity portfolios within the Department 's register
- Establishing and maintaining business continuity management portfolios within the department 's business continuity management system
- Ensure the design, resource, operation and monitoring of internal control systems
- Assign accountability for managing risks and controls within agreed boundaries and comply with department standards relating to particular types of risks
- Providing a system of on-going risk treatment and review that is capable of responding promptly to new and evolving risks
- Identify and report on the results of assessments, regarding the effectiveness of risk treatments, to the Risk Management Policy and Steering Committee, Audit Committee as part of budget planning, reporting and assurance processes

Responsibilities of other Employees

Employees are responsible for applying risk management principles and practises in their work areas. Employees in supervisory and managerial positions are responsible for ensuring that risk management principles and practices are applied by those under their supervision.

8. RISK MANAGEMENT STANDARDS

Ref.	PRINCIPLE	RESPONSIBILITY	FREQUENCY
1	Top Management Accountability		
1.1	Incorporate top management accountability into the Risk Management Policy and Charter	GMs: Chief Directorates	Development and implementation of Risk Management Charter
1.2	Top management will provide stakeholders with assurance that strategic and operational risks are properly identified	Head of Department (Chairperson of RMC)	Develop a risk register on annual basis
1. 3	Top management will provide stakeholders with assurance that risks are actively managed	Head of Department (Chairperson of RMC)	Risk Management function will review the effective management of risks on a quarterly basis and produce a report to RMC
1.4	Top management will define the Department's risk tolerance levels	Head of Department (Chairperson of RMC)	Risk tolerance levels will be defined by the ERMC during the strategic planning process

Ref.	PRINCIPLE	RESPONSIBILITY	FREQUENCY
1.5	Top management will establish a formal risk management policy	GMs: Chief Directorates	A policy has been developed and approved by the DG, and will be periodically reviewed for its relevance and applicability
1.6	Top management will formally evaluate the effectiveness of the Department's risk management process	Head of Department (Chairperson of RMC)	Internal Audit function will provide assurance on the effectiveness of risk management process and produce a report to the ARMC
1.7	Top management will facilitate for a formal and independent risk management performance review to be carried once a year	GMs: Chief Directorates	The Internal Audit Unit will independently review on an annual basis the effectiveness of risk management in the department
1.8	Top management shall confirm that the risk management process is accurately aligned to the strategy and performance objectives of the Department	GMs: Chief Directorates	Top management shall identify strategic risks that will have a material impact on the performance objectives of the department
2	**DPW Risk Management Framework**		
2.1	Management will adopt one risk management strategy for the Department	GMs: Chief Directorates	The risk management strategy of the department will be to control the impact of identified risks on the achievement of its strategic objectives. The strategy will be reviewed every three years to ensure alignment with best practices
2.2	Management will decide upon the key activities that will form its risk management process	GMs: Chief Directorates	Components of the risk management process shall be confirmed by the ERMC
2.3	Management will determine responsibilities for each task within the	Risk Management Committee	The risk management plan shall be reviewed to ensure that the responsibilities for

Ref.	PRINCIPLE	RESPONSIBILITY	FREQUENCY
	Department's risk management process		each component of risk management process is clearly stipulated
2.4	The Department's Risk Management Framework will be formally reviewed at least annually	Risk Management Committee	Annual review of the risk management framework by ERMC
2.5	The framework will incorporate a mechanism for applying the risk management processes to new projects and anticipated major changes	Risk Management Committee	The impact of major restructuring in the department will be reviewed on its impact on the Department's strategic objectives by the ERMC
2.6	Management will establish a common language for the Department's risk management processes	Risk Management Committee	The risk management terminology as outlined in an adopted risk management solution will be used throughout the organization
2.7	A culture of risk management will be developed within the Department	Risk Management Committee	Risk awareness workshop by the risk management function will continue throughout the Department. The current quarterly reporting will include reports on risk management achievements and challenges
2.8	Ensure that a compliance function is included within the risk management framework	Risk Management Committee	The risk management function will develop a compliance framework as part of the IRMPF. Create awareness on compliance throughout the organization
2.9	Determine the limits and parameters of authority for risk issues and related decision making in the department	Risk Management Committee	Risk acceptability and tolerance levels will be determined by RMC
2.10	Provide a decision support tool for key risks	Head of Department	Procurement of the ERM software to support the reporting and monitoring of risk management process by

Ref.	PRINCIPLE	RESPONSIBILITY	FREQUENCY
			the Accounting Officer
3	**Organisational Structures for Risk Management**		
3.1	Establish an Executive Risk Management Committee for the Department	Risk Management Unit	Risk Management function shall facilitate the functioning of this Committee
3.2	Incorporate risk management responsibilities to existing management processes	Risk Management Committee	The Human Resource Management function will ensure the inclusion of risk management to performance agreements and work plans in the department
3.3	Establish communication processes between different risk management functions	Risk Management Committee	Define the various risk management functions and ensure that they are included as part of the Executive Risk Management Committee
3.4	Decide upon risk management disclosure for the department	Head of Department	Report on the effective implementation of risk management processes on the department's annual report by the Accounting Officer
3.5	Establish an automated process of risk monitoring within the department	Risk Management Unit	The use of Risk Management Software tool will be adopted and approved by the Accounting Officer
3.6	Ensure there is a coordinated process for risk identification, assessment and intervention processes across the Department	Risk Management Unit	The risk management function will quarterly facilitate and coordinate the functioning of the ERMC
4	**Structured Process of Risk Assessment**		
4.1	Profile Department's objectives	EXCO	The Accounting Officer through the strategic plan will provide guidance on the strategic objectives of the department

Ref.	PRINCIPLE	RESPONSIBILITY	FREQUENCY
4.2	Profile stakeholders with interest in the Department	Risk Management Unit	The Accounting Officer through the strategic plan of the department will profile the key stakeholders of the department
4.3	Identify and profile the Department's key assets and performance drivers	Risk Management Unit	The Accounting Officer will review DPW's immovable asset register and profile key assets
4.4	Profile the key business processes	Risk Management Unit	The Accounting Officer will review and update the business processes of the department on an annual basis
4.5	Assess the risks at corporate and strategic level	Risk Management Unit	Annual Risk assessments
4.6	Assess the departmental risks at operational level	Risk Management Unit	Annual Risk assessments
4.7	Identify potential sources of risks linked to the above	Risk Management Unit	Annual Risk assessments
4.8	Assess effects of risks	Risk Management Unit	Annual Risk assessments
4.9	Evaluate and assess the risk taking propensity of management	Risk Management Unit	Annual Risk assessments
4.10	Evaluate potential root causes of risk events	Risk Management Unit	Annual Risk assessments
4.11	Calculate the potential impact of risk scenarios	Risk Management Unit	Annual Risk assessments
4.12	Calculate the probability of risk events	Risk Management Unit	Annual Risk assessments
4.13	Identify shortcomings in current measures to mitigate the impact of risks	Risk Management Unit	Annual Risk assessments
4.14	Rank the risks in order of priority	Risk Management Unit	Annual Risk assessments
4.15	Identify anticipated changes to the Department and identify associated risks	Risk Management Committee	This will be conducted as part of the strategic planning process (DPW Lekgotla)
5	**Control Environment**		
5.1	Evaluate the strategic	Risk Management	The DPW Strategic Risk

Ref.	PRINCIPLE	RESPONSIBILITY	FREQUENCY
	mitigations in place for key risks	Committee	Management Plan aims to address this
5.2	Evaluate controls, procedures and constraints currently in place for key risks	Risk Management Committee	The DPW Strategic Risk Management Plan aims to address this
5.3	Develop business continuity plans for the Department	Risk Management Unit	Develop Business Continuity Plan for the Department
6	**Risk Monitoring**		
6.1	Select key risks indicators	Risk Management Unit	The key performance indicators as outlined in the ENE document will be used as key risk indicators for strategic risks
6.2	Select risk valuation measures	Risk Management	The level to which risk control action plans have been implemented will be used as a measure of how well the risks have been managed
6.3	Decide upon the frequency of risk monitoring	Risk Management Committee	Risk monitoring will be done once quarterly using the quarterly reports of the various business units
7	**Risk Reporting**		
7.1	Management will provide regular risk management reports to the Chief Risk Officer (CRO)	GMs: Chief Directorates	Develop a timetable/ schedule for the development of risk management reports
7.2	EXCO will report to stakeholders regarding risk developments within the Department	Risk Management Committee	Risk management statement on the annual report will be compiled
7.3	Management will provide the audit and risk management committee with a report on the performance of risk management	Risk Management Committee	This will be done through the ERMC report
7.4	Demonstrate and report on the effectiveness of risk	Risk Management Committee	Risk management reports will be compiled quarterly

Ref.	PRINCIPLE	RESPONSIBILITY	FREQUENCY
	management process		
8	**Embedding The Process Of Risk Management**		
8.1	Take decisions on acceptability of identified risks and controls	Risk Management Committee	Heads of units/ branches and regional managers will take such decisions during the risk assessment process
8.2	Document action plans for risk mitigation	Risk Management Committee	Risk action plans will be documented as part of the risk assessment process
8.3	Use the outputs of risk assessment for strategy development processes	Risk Management Committee	The risk assessment results will guide the design of outputs and action plans in the business planning process
8.4	Use the outputs of risk assessments to direct internal audit plans	Internal Management Audit	Risk assessment results will be used to guide the development of the DPW internal audit rolling plan
8.5	Use the risk assessment results into budgeting and capital allocation processes	Risk Management Committee	Provide management with risk register annually before the strategic planning process

REVIEW OF THE POLICY

This policy will be reviewed as and when required and when there are changes in Legislation.

APPROVED

..... 25/07/13.....

EXECUTIVE AUTHORITY **DATE**

APPENDIX

Risk	Risk is the chance of something happening that will have an impact (either positive or negative) on objectives
Internal Controls	Controls are the existing processes, devices, practices or other actions that act to minimize negative risks or enhance positive opportunities
Inherent Risk	Inherent Risk refers to the initial assessment of a risk without any controls
Residual Risk	Residual Risk is the risk remaining after the implementation of a risk treatment.
Risk Assessment	Risk Assessment refers to the overall process of identifying, analysing and evaluating risks. It may also be referred to as risk analysis or risk evaluation or risk profile and may involve a qualitative or quantitative assessment
Risk Management	Risk Management is "a systematic process to identify, assess, mitigate and monitor risks on a continuous basis before such risks can impact negatively on the department service delivery capacity" the culture, processes and structures that are directed towards realizing potential opportunities whilst managing adverse effects. The risk management process involves communicating, establishing the context, evaluating, treating, monitoring and reviewing risk
Risk Management Process	The systematic application of policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, communicating, treating and monitoring risk.
Risk Register	Risk Register is a documented record of each risk identified. It specifies: a description of the risk, its causes and its impacts, an outline of existing controls, an assessment of the consequences of the risk should it occur and the likelihood of the consequence occurring, given the controls, a risk rating and an overall priority for the risk.
Risk Mitigation	A risk mitigation action refers to actions that must be taken to lower the likelihood of the risk occurring and /or minimize the impact if the risk did occur. Risk can never be totally. Action plan taken to manage the identified risk in ensuring that risks are minimized. Risk cannot be eliminated.

TYPES OF RISKS

Strategic Risks	**Strategic Risks** are external and internal forces that may have a significant impact on achieving key objectives. The causes of these risks include such things as national and global economics and most significantly government policy.
Operational Risks	**Operational Risks** are inherent in the on-going activities that are performed in an organisation. These are the risks associated with such things as day to day operational performance of staff, the risks inherent in the organisational structure, and the manner in which core operations are performed
Project Risks	**Project Risks** are risks associated with projects that are of a specific, sometimes short term nature and are frequently associated with new teaching and learning courses, significant new research or acquisitions, change management, integration and capital development projects. Included amongst the benefits of efficiently managing project risks are the avoidance of unexpected time and cost overruns. When project risks are well managed, there are fewer integration problems with assimilating required changes back into general management functions.