KPMG

Limpopo Province Department of Public Works

Draft Strategic Risk Assessment Report

6 December 2006

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This report contains 35 pages

Contents

1 Introduction

We were requested to facilitate a strategic and nine operational risk workshops for the Limpopo Province Department of Public Works (DPW). The first step in this process was to undertake a strategic risk assessment, with a view to best direct Executive Management's efforts towards the highest risks to which DPW is exposed. Accordingly, meetings were held with executive management to identify potential risk areas' threatening the achievement of DPW's strategic objectives prior to the strategic risk workshop which was facilitated by KPMG on 27 November 2006.

The main purpose of this workshop was to involve and assist the Head of Department and Executive Management from DPW in assessing and prioritising the risks that need to be managed in order to achieve the vision, mission and strategic objectives of DPW. The workshop was also designed to assist management in the establishment of the risk management process as required by the Public Finance Management Act (PFMA) and best practice corporate governance, as well as provide guidance to the internal audit function in the development of a risk based internal audit strategy and annual internal audit plan for DPW.

The participants included amongst others:

- Head of Department
- Chief Financial Officer; and
- General Managers.

We are pleased to provide you with a summary of the results of the strategic risk assessment. The risk assessment information incorporates the participants' perceptions, assumptions and judgments about DPW's business risks and related controls. **The report does not seek to identify all risks faced by DPW. It focuses only on those strategic risks that were highlighted during the workshop by the workshop participants.**

It is important to note that risk management is the responsibility of the Head of Department and Executive Management. **KPMG's responsibilities are limited to the facilitation of the strategic risk assessment (ranking of the identified strategic risks).**

A final evaluation regarding the efficiency and effectiveness of the processes and controls in mitigating the identified risks will not be made until the internal audit function perform actual tests during internal audit fieldwork.

1.1 Restriction on distribution of this document

This document has been prepared for the sole and exclusive use of DPW and may not be made available to anyone other than authorised persons within DPW, nor relied upon by any third party without the prior written consent of KPMG.

2 Strategic overview

2.1 Background

The results of the strategic risk assessment workshop reflect participants' views only. The facilitators did not attempt to influence the process or results in any way. Their role was merely to gather information in a structured manner and to record the views of the participants.

DPW's vision, mission and strategic objectives are as follows:

2.2 Vision

The **vision** of DPW is:

"A leader in the provision and management of provincial government land and buildings"

2.3 Mission

The **mission** of DPW is:

"Optimal utilisation of resources in the provision and management of provincial land and buildings and the coordination of the implementation of the Expanded Public Work Programme."

2.4 Strategic objectives

The **strategic objectives** of DPW are:

- *"Sustainable provincial building infrastructure to support service delivery;*
- *Reduce unemployment;*
- *Promotion of Broad Based Black Economic Empowerment;*
- *Good corporate governance; and*
- *Improve overall efficiency."*

The risk assessment was performed taking the strategic objectives into account by consistently asking the question:

"What are the major threats that could prevent DPW from achieving its strategic objectives?"

3 KPMG risk assessment approach

An overview of the risk assessment process followed is presented below:

3.1 Methodology

In order for any business to be effective, it must focus its attention and resources on the areas of most significant risk and concern to stakeholders. The risk assessment workshops are fundamental elements of the risk management process.

The principal aims of the strategic risk workshop were to:

- Confirm DPW's vision, mission and strategic objectives;
- Confirm the significant and strategic risks, identified by executive management prior to the workshop, threatening the achievement of these objectives;
- Analyse the risks (impact / potential loss, likelihood / probability); and
- Analyse the perceived control effectiveness.

During the workshop, participants were required to provide input based on their actual knowledge and experience of DPW's operations and environment.

3.2 What is risk in a business environment

"Risk is inherent in business processes; it arises from actions taken in pursuit of objectives and changes in the external environment. Change in the ways companies do business, in technological developments, in the regulatory framework and the size of the business in terms of the strain such change places on its control mechanisms are all major sources of risk."

-Sir Roger Hurn (Chairman of Marconi plc)

3.2.1 Risk definition for the purpose of the workshop

For purposes of the workshop and implementing an effective risk management system at DPW, a risk / threat was defined as follows:

"Uncertain future events, which could influence the achievement of the entity's objectives."

- King II

For each risk / threat identified the following was assessed:

3.2.1.1 The impact

This is the **potential magnitude of the impact** on DPW's operations **should the risk / threat actually occur**. No account of existing controls is taken into consideration in assessing the impact of risks. The impact was categorised into 5 different levels, namely:

Catastrophic	Critical	Serious	Significant	Minor

For a detailed explanation of the different categories please refer to **Appendix A.**

3.2.1.2 The probability of occurrence

This is the likelihood that the identified risk / threat will occur within a specified period of time (between 1 and 3 years) on the basis that **management have no specific / focused controls in place to address the risk / threat.** The probability of occurrence was categorised into 5 different levels, namely:

Almost certain	Likely	Possible	Unlikely	Rare

For a detailed explanation of the different categories please refer to **Appendix A.**

3.2.2 Inherent risk

Inherent risk is the *product of the impact of a risk and the probability of that risk occurring before the implementation of any direct controls.* The score for inherent risk assists management and internal audit alike to establish relativity between all the risks / threats identified. Please note that at this stage no account is taken of existing controls implemented by management.

This indicator may be used to assign / measure the level of management effort / resources required to control the relevant risks and to determine the level of internal audit focus required.

3.2.3 Controls

Controls are the processes / functions / programmes that Executive Management and the Head of Department have put in place, and rely upon, to manage the strategic and significant risks. At this strategic risk assessment workshop we have limited ourselves to the ranking of the perceived effectiveness of these processes.

3.2.4 Perceived control effectiveness

The participants **assessed the control effectiveness based on their understanding of the control environment currently in place at DPW**. This is a measure of how well management perceives the control processes to be working and effectively managing the risks. Processes / controls were categorised into 5 different levels of effectiveness, namely:

Very good	Good	Satisfactory	Weak	Unsatisfactory

For a detailed explanation of the different categories please refer to **Appendix A**.

3.2.5 Residual risk

This is the score of risk that DPW is exposed to taking into account the potential impact of the risk, the probability of the risk occurring and the related control processes which are in place to manage that risk. *Residual risk / exposure is therefore the product of the inherent risk and the control effectiveness factor.*

This information will assist decision makers in assessing the acceptability of the residual risk / exposure and in deciding whether further management action is required to effectively control the risk.

3.2.6 Management actions

Based on the relative score of the residual risk / exposure, **management will need to decide whether or not they are willing to accept the identified level of residual risk / exposure.**

If the residual risk is considered to be too high, then an action plan will then need to be developed outlining the identified action/s to reduce the risk to a level that is more acceptable to management and other stakeholders.

Management actions may include the re-examination of the control design and / or the business / quality objective identified earlier in the risk management process.

The action plans must clearly identify:

- The required action;
- The person responsible for implementing the action; and
- The expected date of implementation.

4 Results

The workshop participants agreed and confirmed the vision, mission and strategic objectives of DPW. The risks identified by the workshop participants of DPW were rated and the control effectiveness of the managing processes and / or persons currently responsible to mitigate or manage each of these risks was also assessed in terms of perceived control effectiveness.

Participation and discussion during the workshop was open and constructive. We were particularly impressed with the level of attendance of the participants.

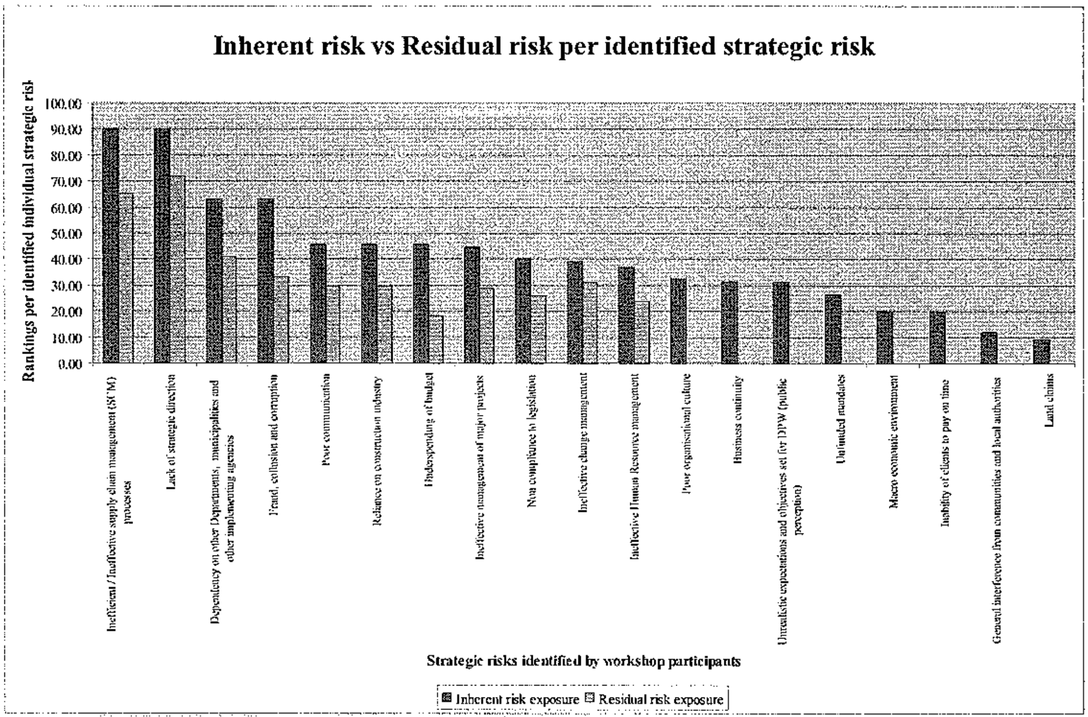
The results of the risk assessment workshop, from highest to lowest inherent risk, have been depicted graphically in **Paragraph 4.1**.

The major / strategic risks currently faced by DPW, as identified by the participants during the strategic risk workshop, are presented in **Paragraph 4.2** from highest to lowest inherent risk.

4.1 Graphical illustrations

4.1.1 General

The identified strategic risks are depicted graphically below.



4.1.2 Risk graph

The relative size of strategic risks threatening the achievements of DPW's vision, mission and strategic objectives as well as the perceived control effectiveness for each of the risks, as identified by the workshop participants, are depicted graphically above from the highest to the lowest inherent risk.

The inherent nature of the risk is the assessment of the risk without specific, focused controls in place. The residual nature of the risk is the assessment of the risk taking into account the existing controls and their perceived effectiveness.

The larger the difference between the inherent and residual risk factors the more effective the controls in place are perceived to be.

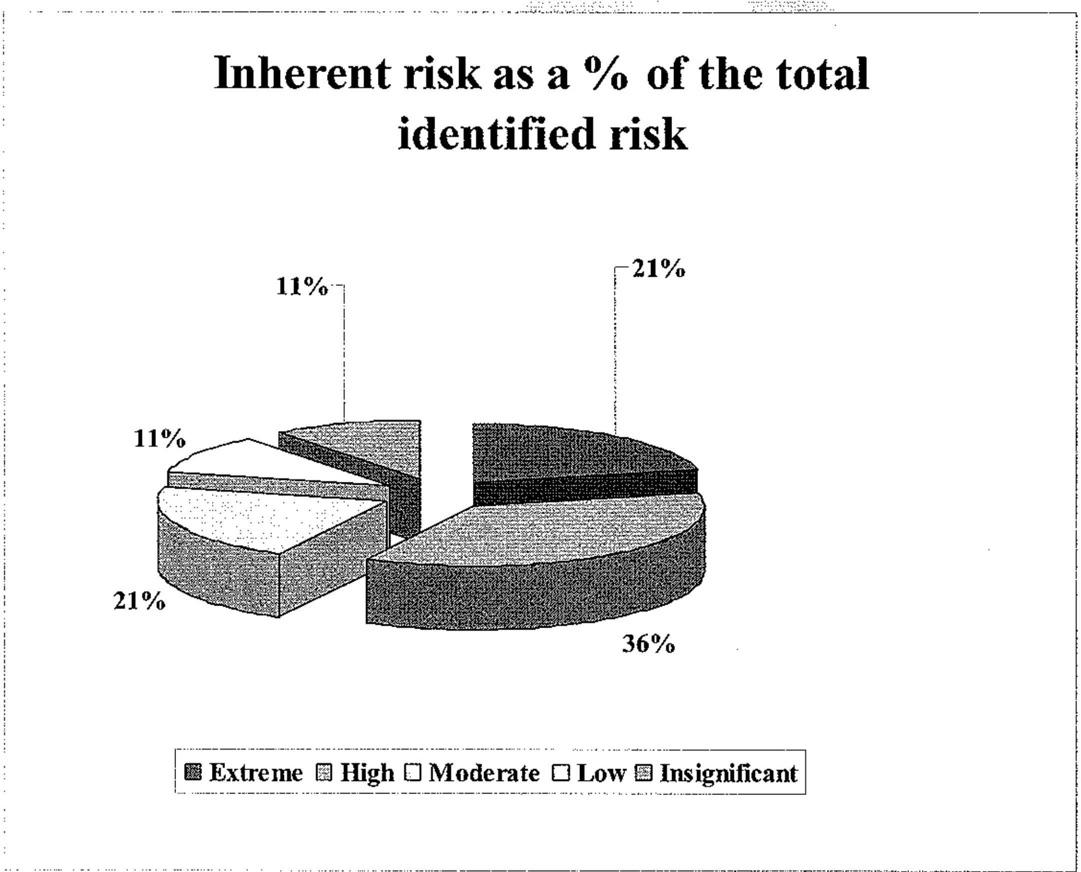
The smaller the difference between the inherent and residual risk factors, the more management actions and improved control effectiveness is needed to ensure that the risk is properly managed.

Management should take cognisance that the higher the inherent risk factor, the greater the need for control effectiveness and therefore the more management attention the item should attract in order to:

- Maintain the quality of control where control effectiveness is considered adequate; and
- Improve quality of control further where residual risk is considered to be too high.

4.1.3 Inherent risk

Of the 19 strategic risks identified by Executive Management of DPW 11 (57%) were assessed as either extreme or high by the participants attending the risk workshop.



Risks rated with extreme inherent risk ratings are as follows:

- Inefficient / Ineffective supply chain management (SCM) processes;
- Lack of strategic direction;
- Dependency on other Departments, Municipalities and other implementing agencies; and

- Fraud, collusion and corruption.

Risks rated with high inherent risk ratings are as follows:

- Poor communication;
- Reliance on construction industry;
- Under spending of budget;
- Ineffective management of major products;
- Non compliance to legislation;
- Ineffective change management; and
- Ineffective human resource management.

Risks rated with moderate inherent risk ratings are as follows:

- Poor organizational culture;
- Business continuity;
- Unrealistic expectations and objectives set for DPW (public perception); and
- Unfunded mandates.

Risks rated with low inherent risk ratings are as follows:

- Macro economic environment; and
- Inability of clients to pay on time.

Risks rated with insignificant inherent risk ratings are as follows:

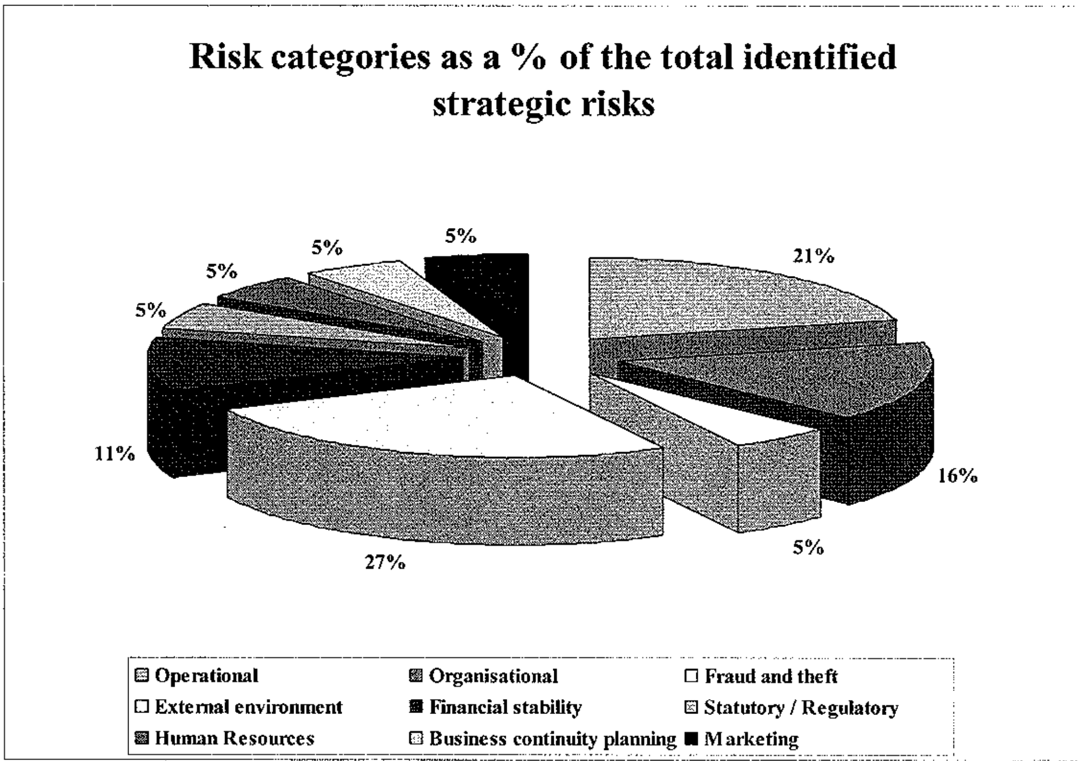
- General interference from communities and local authorities; and
- Land claims.

The above analysis clearly illustrates the importance of focusing and actively managing the highest risk areas first and then gradually working down the list.

The higher the inherent risk value, the greater the need for good quality controls and control effectiveness and the more Executive Management, Head of Department and Internal Audit attention the item should attract.

4.1.4 Identified risk categories

The 19 strategic risks identified by management were categorised into 9 identified risks categories. This clearly indicates that risk from both an internal and external environment were identified. It also clearly indicates that risk from both core and support processes were identified.

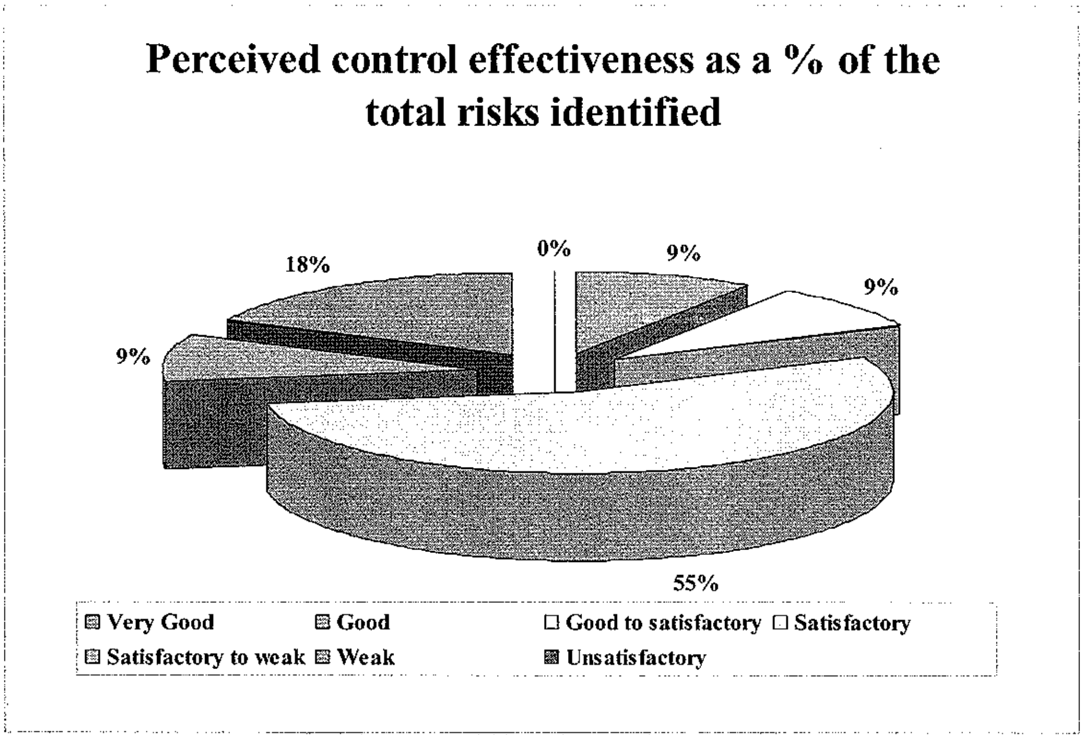


Once again Management should assess whether the assessments and this analysis is correct and take appropriate corrective action.

4.1.5 Perceived control effectiveness

As indicated above, 11 risks were identified by management as having either extreme or high inherent risk ratings. In terms of our methodology it was then necessary to evaluate the controls of the 11 identified strategic risks.

Of the 11 strategic risks identified by management 2 (18%) was evaluated as weak by the participants attending the workshop.

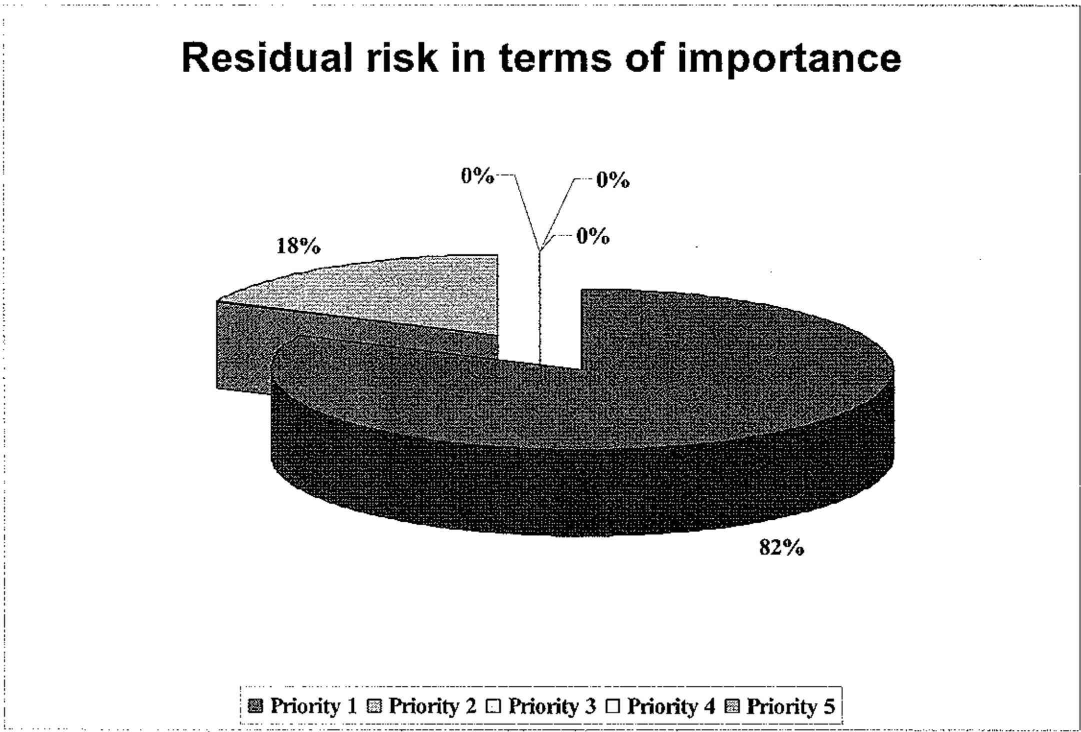


73% of controls managing the strategic risks are perceived to be either satisfactory or good. Management should assess whether the assessments and this analysis is correct and take appropriate corrective action.

4.1.6 Residual risk

The residual graph represents the highest assessed risks faced by DPW after taking into account the existing controls and their perceived control effectiveness. The higher the residual risk, the greater DPW's exposure to loss or loss of opportunities. These areas should be a guide as to the priority for management effort and the allocation of resources to improve the design / quality of control and control effectiveness.

The graph below indicates the residual risk in terms of importance / priorities.



The KPMG Risk Methodology classifies and defines residual risk as the following priorities:

Priority 1: The risk is intolerable and requires action to further mitigate the exposure;

Priority 2: The risk is intolerable and requires management intervention to further mitigate the exposure;

Priority 3: This risk exposure exceeds the current risk appetite and should be monitored to ensure prompt intervention if so required;

Priority 4: The risk exposure is tolerable; and

Priority 5: Risk may be over controlled.

As indicated in the graph above, all of the identified and assessed risks in terms of residual risk are assessed as requiring management intervention.

*Strategic risks rated as **Priority 1** risks are as follows:*

- Inefficient / Ineffective supply chain management (SCM) processes;
- Lack of strategic direction;
- Dependency on other Departments, Municipalities and other implementing agencies;
- Fraud, collusion and corruption;
- Poor communication;

- Reliance on construction industry;
- Ineffective management of major products;
- Non compliance to legislation; and
- Ineffective change management.

*Strategic risks rated as **Priority 2** risks are as follows:*

- Under spending of budget; and
- Ineffective human resource management.

*Strategic risks rated as **Priority 3** risks are as follows:*

- None identified by workshop participants.

*Strategic risks rated as **Priority 4** risks are as follows:*

- None identified by workshop participants.

*Strategic risks rated as **Priority 5** risks are as follows:*

- None identified by workshop participants.

4.2 Summary of strategic risks confirmed during the workshop

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
1	**Inefficient / Ineffective supply chain management (SCM) processes** - Delayed decisions - Legal liability as a result of ineffective tender process - Process too slow - Tenders advertised twice by mistake	Cost inefficiencies Poor service delivery Harm to reputation Inability to meet targets	1, 3, 4, 5	Operational	Key assets	Chief Financial Officer	100.00	0.90	90.00	1. Approved and implemented Supply Chain Management framework 2. Implemented bids management, demand, acquisition, asset management, disposal and logistics processes 3. Approved policies and procedures for supply chain management 4. Signed Service Level Agreements (SLA) with suppliers 5. Implemented generic service standards within DPW 6. Approved and implemented Performance Management System (PMS) 7. Approved job descriptions per level 8. Monthly reporting to Provincial Treasury on Supply Chain Management activities 9. Implemented Contractor management	0.73	1. Review and approve current SCM policy **Deadline date: 31 January 2007** **Responsible Official: Chief Financial Officer** 2. Enforce SCM policies **Deadline: 28 Feb 2007** **Responsible Official: Head of Department and Chief Financial Officer** 3. Develop and implement annual procurement plan **Deadline date: 28 February 2007** **Responsible Official: Chief Financial Officer**	[illegible]

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
2	**Lack of strategic direction** Poor planning leading to inefficient prioritisation - spending 80% of time on 20% of priorities Ineffective decision making process - Poor decisions - Decisions not clear and precise - Decisions not decisive - Not taking accountability for decisions Silo mentality within DPW - Poor teamwork - Many teams with own small vision and mission - Reliance on other programmes to meet objectives Ambiguous roles and responsibilities - Two directives issued for same problem - Unclear communication lines Revised mandate is not aligned to actual resources - Organisational structure does not	Inability to meet targets Poor service delivery Poor performance Cost inefficiencies Incorrect management decisions	1, 2, 3, 4, 5	Organisational	Strategic Management Process	Head of Department and Management	100.00	0.90	[redacted]	- Approved Strategic Plan - Approved Annual Performance Plan - Yearly Planning Sessions - Alignment of strategic plan to approved budget - Attendance of EXCO Lekgotla - Formalised monthly combined programme meetings (minutes of meetings etc) - Attendance of formalised monthly cluster meetings (minutes of meetings) - Quarterly reporting to Provincial Treasury in terms of DPW performance - Monthly reporting against targets at monthly management meetings - Approved and implemented delegations of authority - Approved and implemented performance contracts with deliverables	0.80	1. Report back at monthly combined programme meetings on decisions implemented **Deadline date: 30 November 2006** **Responsible Official: Head of Department** 2. Report against Strategic Plan in terms of targets reached **Deadline date: 4 December 2006** **Responsible Official: Programme Managers**	[redacted]

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
	support revised mandate - Budget not aligned to strategic plan Ineffective management meetings - Poor planning and communication - Too many management meetings - Length of time for management meetings - Write reports for the sake of reports												
3	**Dependency on other Departments, municipalities and other implementing agencies** - Lack of coordination / planning between Departments - Late submission of business plans - Late submission of Expanded Public Works Programme (EPWP) monthly and quarterly reports	Inability to meet targets Harm to reputation	1, 2, 3, 5	Operational	Alliances Key assets	Project Management and EPWP	70.00	0.90	63.00	- Yearly business plans to be submitted by 30 June of each financial year - Defaulters are reported at monthly cluster meetings for follow up and further action - Dedicated sector co-ordinators for EPWP - Bi-monthly formalised meetings with clients - Quarterly Steering Committees in place - Monthly Co-ordination Committees	0.65	1. Creation of dedicated client service teams per department **Deadline date: 1 April 2007** **Responsible Official: Head of Department and Programme Managers** 2. Enforce implementation of 5 year EPWP business plan **Deadline date: 1 April 2007** **Responsible Official: Head of Department**	[illegible]

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
												3. Training of all sector co-ordinators on LIC methods **Deadline date: 1 April 2007** **Responsible Official: EPWP**	
4	Fraud, collusion and corruption - Abuse of vehicle fleet	Financial loss Harm to reputation Inability to meet targets	1, 2, 3, 4, 5	Fraud and theft	Key assets Alliances	Risk and Compliance	70.00	0.90	[redacted]	- Implemented National Fraud Hotline with reporting to DPW - Approved Fraud Prevention Plan for DPW - Fraud Awareness Campaigns (Induction) - Segregation of duties within DPW - Approved and implemented delegation of authority - Approved and implemented policies and procedures - Disciplinary action taken against defaulters - Reporting of fraud related activities to SAPS and Public Service Commission - Implemented Provincial Protector Disclosure Policy Framework	0.53	1. Approve and implement Whistle Blowing policy **Deadline date: 31 January 2007** **Responsible Official: Chief Financial Officer** 2. Improve finalisation of disciplinary cases **Deadline date: Ongoing** **Responsible Official: Head of Department**	[redacted]

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
										- Implemented National Anti-corruption Strategy			
5	**Poor communication** - Communication not clear and concise - Non timeous communication - Lack of communication - Reliance on other programmes to meet objectives	Silo mentality Inability to share information Harm to reputation Cost inefficiencies Inability to meet targets	1, 2, 3, 4, 5	Operational	Key assets	GITO	70.00	0.65	45.50	- Formalised monthly programme meetings - Use of intranet site - Approved and implemented communication strategy and policy - Monthly internal and quarterly external news letters - Budget road shows and quarterly imbizos (public participation forums) - Approved marketing and advertising activities - Implemented communication standards - MEC radio interviews, etc. - Use of service excellence awards	0.65	1. Improve intranet and develop website **Deadline date: March 2007 Responsible Official: GITO** 2. Develop calendar of events for financial year **Deadline date: March 2007 Responsible Official: GITO and Office of Member of Executive Committee (MEC)**	[illegible]

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
6	**Reliance on construction industry** Reliance on contractors - Slow service delivery - Inability to raise performance guarantees - Lack of management skills within the contractors - Lack of relevant skills on site - Poor quality of service delivery Reliance on other professional bodies (Construction Industry Development Board (CIDB)) - Slow registration process - Questionable grading system Non availability of building materials - Bricks- Cement	Inability to meet targets Cost inefficiencies Poor quality of service delivery Harm to reputation	1, 5	External environment	Alliances External forces and agents	Project Management	70.00	0.65	45.50	- Approved and implemented tender processes - Signed SLA's with penalty clauses - Retention of performance guarantees - Implemented CIDB standards for conformity - Project Managers allocated to individual projects - Appointed consultants to manage quality of service delivered by contractors - Monthly site meetings and reporting thereon - Use of progress and close-out reports for all projects - Use of completion certificates - Adherence to the Code of Good Practice and Division of Revenue Act	0.65	1. Improve supervision through steering committees and project management on project sites **Deadline date: Immediate** **Responsible Official: Project Management**	
7	**Under spending of budget** - Not meeting performance targets	Harm to reputation Inability to meet targets Poor quality of service delivery	1, 2, 3, 4, 5	Financial stability	Key assets	Chief Financial Officer	70.00	0.65	45.50	- Approved and implemented annual budget - Approved annual budget aligned to strategic and annual	0.40	None identified	18.20

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
										performance plan of DPW - Monthly reporting to programme management meeting on actual vs. budgetary performance - Reasons for under spending recorded on Treasury report on a monthly basis - Budgeted performance reported monthly to programmes - Monthly and quarterly reporting to Treasury in terms of budgetary performance			
8	**Ineffective management of major projects**	Inability to meet targets Cost inefficiencies Poor quality of service delivery Financial loss as a result of litigation	1, 4, 5	Operational	Key assets Segmentation	Project Management and EPWP	85.00	0.53	44.63	- Approved and implemented tender processes - Signed SLA's with penalty clauses - Retention of performance guarantees - Implemented CIDB standards for conformity - Project Managers allocated to individual projects - Appointed consultants to manage quality of service delivered by	0.65	1. Improve supervision through steering committees and project management on project sites **Deadline date: Immediate** **Responsible Official: Project Management**	[illegible]

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
										contractors - Monthly site meetings and reporting thereon - Use of progress and close-out reports for all projects - Use of completion certificates - Adherence to the Code of Good Practice and Division of Revenue Act			
9	**Non compliance to legislation** - PFMA (Wasteful expenditure) - Employment Equity (Legitimacy of management structure in terms of government initiatives, Inability to meet BEE initiatives) - Asset Management Bill	Possible prosecution Financial loss Negative publicity and harm to reputation	4	Statutory	Key assets External forces and agents	Risk and Compliance	100.00	0.40	40.00	- Performance of compliance audits within various programmes - Head of Department authorises all statutory and legislative reports submitted for DPW - Use of circulars and practice notes from National Treasury and other departments for identification of any changes in legislation - Attendance of various user forums for identification of any changes in legislation - Signed and approved performance contracts makes reference to compliance to legislation	0.65	1. Implement compliance awareness campaigns **Deadline date: 31 March 2008** **Responsible Official: Risk and Compliance** 2. Implement and monitor bi-annual reporting on progress against compliance checklists **Deadline date: 31 March 2007** **Responsible Official: Risk and compliance**	[illegible]

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
										- Monthly and quarterly reporting to Head of Department makes provision for compliance (balanced scorecard) - Developed compliance checklists for all legislation applicable to DPW			
10	**Ineffective change management** - Continuous high level of changes - Lack of consultation with programmes - Low staff morale - Different management styles	Poor service delivery Inability to meet targets Cost inefficiencies Low staff morale Loss of key staff Loss of institutional memory	1, 2, 3, 4, 5	Organisational	Strategic Management Process	Strategic Planning	60.00	0.65	39.00	- Changes to approved organisational structure	0.80	1. Develop and implement change management teams for all change management activities **Deadline date: Immediate** **Responsible Official: Human Resources Management** 2. Revisit positioning of Change Management within DPW (Strategic Planning vs. Human Resources Management) **Deadline date: 31 January 2007** **Responsible Official: Head of Department**	

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
11	**Ineffective Human Resource management** Lack of appropriate skills - Possible loss of skills / knowledge of current key staff - Inability to appoint appropriate key staff timeously - High vacancy levels - Misplaced employees Loss of key skills - Uncompetitive remuneration structures - Lack of career progression - Low staff morale	Inability to meet targets Cost inefficiencies Poor quality of service delivery Institutional memory loss Lack of continuity	1, 2, 3, 4, 5	Human Resources	Key assets	Human Resources	70.00	0.53	36.75	- Approved organisational structure - Implemented recruitment processes - Approved workplace skills plan - Performance management process - Job descriptions - Skills audit (Sept. 06) - Budgetary process linked to organisational structure - Informal on the job training - Ad hoc staff meetings - Implemented HR policies and procedures	0.65	1. Reprioritisation of current budget to ensure vacancies are addressed **Deadline date: 1 April 2007** **Responsible Official: Chief Financial Officer** 2. Improve turnaround time of appointments **Deadline date: September 2007** **Responsible Official: Human Resources Management** 3. Implement recommendations of skills audit **Deadline date: 1 April 2007** **Responsible Official: Human Resources Management**	23.89

5 The way forward

Having completed the organisation-wide risk assessment (a key step in the overall risk management process), management now needs to focus on ensuring it understands the risk universe within which it operates. Achieving the strategic intent within the risk universe involves identifying what has to be managed and ensuring that such management and control actually takes place timeously and effectively.

The strategic level risk assessment workshop has provided a basis for commencing the implementation of a formal risk management framework at DPW.

The next challenge is to develop and implement a structured plan for implementing effective and ongoing risk management at DPW.

This should include the following key phases and steps, amongst others:

5.1.1.1 Project planning

Develop a detailed project plan to implement Enterprise-wide Risk Management at DPW, meeting the key requirements of:

- The Public Finance Management Act;
- the King Report on Corporate Governance (King 2); and
- the Standards of the Institute of Risk Managers of South Africa.

5.1.1.2 Risk awareness and strategy

- Develop and rollout an ongoing risk management awareness and training programme for all levels of management – to build upon the current level of understanding and knowledge.
- Establish ownership and accountability for risk management within DPW - Incorporate risk responsibilities in key management mandates, charters, performance contracts, job descriptions, etc.
- Include risk management as a key agenda item on key meetings, e.g. Executive Management and Audit Committee.
- Gradually formalise and approve a risk strategy that is aligned with and supports the achievement of DPW's strategic direction.

5.1.1.3 Risk management structures and culture

- Ensure an independent committee is formally charged with overseeing the risk management process – this may form part of the Audit Committee mandate or may be allocated to a separate body that reports back at Audit Committee meetings.
- Appoint / identify a dedicated "Chief Risk Officer" responsible for coordinating and analysing DPW's risk management and assurance efforts on an ongoing basis, and reporting to key stakeholders.
- Establish a team of "Risk Champions" who will work closely with the "Chief Risk Officer" and will drive the risk management initiatives within their respective directorates.
- Consider the acquisition of specialised risk management software in order to facilitate the capturing, analysing and reporting of risk information.

5.1.1.4 Integrated risk assessments and risk management activities

- Maintain the Strategic Risk Register current and up to date – including a formal risk identification and assessment process conducted at least annually.
- Incorporate the identified strategic risks into both the strategic plan for 2007 / 2009 and the business plans.
- Allocate responsibility for each individual strategic and major risk to a senior (and accountable) member of management (risk owner) – including the implementation of management action plans to improve levels of control where required.
- Regular management / monitoring of the identified exposures through:
  - Further development of specific action plans to address individual exposures;
  - Allocation of individual officials responsible for action plans;
  - Setting of due dates / implementation of time frames;
  - Development of key performance indicators by which the success of the improved controls can be measured; and
  - Facilitation of process level workshops.

Process level workshops should be conducted to reach consensus regarding:

- Related process level objectives and risks;
- The alignment of the above with strategic focus areas as well as the risks identified in this report;
- Controls which management relies upon to manage those risks;
- Perceived and desired effectiveness of those controls; and
- Areas considered to be lacking in control, which would require further management action.

- Integrate the active monitoring of identified risks and related controls (including the allocation of individual "risk owners") into the ongoing activities of the Business Units, Executive Management, Head of Department and the Risk Committee;
- Ensure there is regular report-back by the "risk owners" on the status of the risks and related internal controls – This should be performed as part of the normal management activities, e.g. monitoring performance against "risk based" business plans and budgets.
- Develop a "Combined Assurance Plan" which coordinates the efforts of various assurance providers available to DPW – internal audit, external audit, insurers, etc.

A DPW specific risk management framework developed through this process will not only ensure that best practice corporate governance requirements are adhered to but will also improve the effectiveness of management in discharging their own management and governance responsibilities.

6 Acknowledgements

We would like to thank the Head of Department and all workshop participants of DPW for their cooperation and participation in the workshop.

Appendix A – Dependency Profile

Draft DPW Dependency Profile

External Forces and Agents

Legislation	Political	Media	Macro Economy
Socio Economic Environment	Geographical spread	Environmental	Technology

Strategic Objectives

Sustainable provincial building infrastructure to support service delivery

Reduce unemployment

Promotion of Broad Based Black Economic Empowerment

Good corporate governance

Improve overall efficiency.

Strategic Management Process

Strategic issues

- Effective co-ordination and implementation of the Expanded Public Works Programme
-Provision and management of government assets

Key assets

Cash and Bank
Land
Buildings
Information Technology assets
Vehicle fleet
Debtors
Equipment and Furniture
Intellectual capital and skills
Reputation

Markets

Citizens

Business

All tiers of Government

Interest Groups

Segmentation

Administration
- Office of the MEC
- Office of the HOD
- Strategic Human Resource Mgt
- Strategic Financing
- Corporate Services
- GITO
- Strategic Management

Provincial Infrastructure Development
- Professional services
- Project Management
- Real estate
- Buildings and Maintenance

Expanded Public Works Programme

Alliances

National Ministry

Other Limpopo Provincial Department

Public / Private Partnerships

Municipalities

Preferred service providers

Contractors

Non profit organisations

Trade unions

Competitors

None identified

Appendix B – List of risks partially assessed

Listed below are the risks that were identified during the risk identification phase of the workshop which were partially assessed. The participants view was that these risks are inherently less important and as such need not to be analysed any further for strategic purposes.

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure
12	**Poor organisational culture** - Low morale - Poor work ethics - Poor planning - Shirking off of responsibilities - Poor corporate governance processes - Lack of trust and integrity - Silo mentality within DPW - Poor teamwork - Many teams with own small vision and mission - Reliance on other programmes to meet objectives	Harm to reputation Lack of accountability Inability to meet targets and deadlines Cost inefficiencies Poor quality of service delivery	1, 2, 3, 4, 5	Organisational	Strategic Management Process	Head of Department Human Resources Management	50.00	0.65	32.50
13	**Business continuity** - Failure of information technology systems - Inadequate disaster recovery - Loss of information - Viruses etc	Non timeous reporting Loss of transmission data Poor decision making process Harm to reputation Cost inefficiencies	1, 2, 3, 4, 5	Business continuity planning	Key assets Alliances	Government Information and Technology Office (GITO)	60.00	0.53	31.50
14	**Unrealistic expectations and objectives set for DPW (public perception)**	Inability to meet targets Harm to reputation	1, 4, 5	Marketing	Key assets Markets	GITO and Office of MEC	60.00	0.53	31.50
15	**Unfunded mandates**	Cost inefficiencies Inability to meet targets	4, 5	External environment	External forces and agents	Head of Department and Office of MEC	50.00	0.53	26.25
16	**Macro economic environment** - Increase in inflation - Currency fluctuations	Inability to meet targets Cost inefficiencies Harm to reputation Financial loss	1, 5	External environment	External forces and agents	Chief Financial Officer	50.00	0.40	20.00

Strategic risk number	Risk description	Consequence of risk	Link to strategic objectives	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure
17	**Inability of clients to pay on time**	Harm to reputation	1, 3, 4, 5	Financial stability	Markets	Chief Financial Officer and Project Management	50.00	0.40	20.00
18	**General interference from communities and local authorities**	Delay in project starting dates Inability to meet targets and deadlines Cost inefficiencies Harm to reputation	4, 5	External environment	Alliances	Project Management and Office of MEC	40.00	0.30	12.00
19	**Land claims**	Harm to reputation Cost inefficiencies Inability to meet targets	1, 5	External environment	External forces and agents	Real Estate	30.00	0.30	9.00

Appendix C - Assessment tables

Below are the tables used to size the risks according to the potential impact of the risk, the likelihood that the risk will occur, as well as the effectiveness of existing controls. The following three tables provide the legends for the respective decisions required during the workshop.

Qualitative assessment of impact

The table below was used to assist management in quantifying the impact of a specific risk occurring.

Impact	Continuity of Supply	Safety & Environmental	Technical Complexity	Financial
Catastrophic **100**	Risk event will result in widespread and lengthy reduction in continuity of supply to customers of greater than 48 hours	Major environmental damage Serious injury (permanent disability) or death of personnel or members of the public Major negative media coverage	Use of unproven technology for critical system / project components High level of technical interdependencies between system / project components	Significant cost overruns of >20% over budget Affect on revenue / asset base of >10%
Critical **70**	Reduction in supply or disruption for a period ranging between 24 & 48 hours over a significant area	Significant injury of personnel or public Significant environmental damage Significant negative media coverage	Use of new technology not previously utilised by the entity for critical systems / project components	Major cost overruns of between 10 % & 20 % over budget Affect on revenue / asset base of between 5% & 10%
Serious **50**	Reduction in supply or disruption for a period between 8 & 24 hours over a regional area	Lower level environmental, safety or health impacts Negative media coverage	Use of unproven or emerging technology for critical systems / project components	Moderate impact on revenue and assets base
Significant **30**	Brief local inconvenience (work around possible) Loss of an asset with minor impact on operations	Little environmental, safety or health impacts Limited negative media coverage	Use of unproven or emerging technology for systems / project components	Minor impact on revenue and assets base
Minor **10**	No impact on business or core systems	No environmental, safety or health impacts and/or negative media coverage	Use of unproven or emerging technology for non-critical systems / project components	Insignificant financial loss

Qualitative assessment of probability of likelihood

The table below was used to assist management in quantifying the likelihood of a specific risk occurring.

Likelihood Factor	Qualification Criteria	Rating
Almost Certain	The risk is almost certain to occur in the current circumstances	0.90
Likely	More than an even chance of occurring	0.65
Possible	Could occur quite often	0.40
Unlikely	Small likelihood but could happen	0.20
Rare	Not expected to happen - Event would be a surprise	0.10

Qualitative assessment of perceived control effectiveness

The table below was used to assist management in quantifying the perceived effectiveness of controls to mitigate or reduce the impact of specific risks.

Effectiveness Factor	Qualification Criteria	Rating
Very Good	Risk exposure is effectively controlled and managed	0.20
Good	Majority of risk exposure is effectively controlled and managed	0.40
Satisfactory	There is room for some improvement	0.65
Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies	0.80
Unsatisfactory	Control measures are ineffective	0.90

Inherent Risk

The table below was used to categorise the inherent risk exposure of the identified risks into the 5 different categories.

Inherent Risk	**Rating**
Extreme	**≥ 50**
High	**≥ 35 < 50**
Moderate	**≥ 25 < 35**
Low	**≥ 15 < 25**
Insignificant	**< 15**

Residual Risk

The table below was used to categorise the residual risk exposure into the 5 different categories.

Residual Risk	**Rating**
Priority 1	**≥ 25**
Priority 2	**≥ 17.5 < 25**
Priority 3	**≥ 12.5 < 17.5**
Priority 4	**≥ 7.5 < 12.5**
Priority 5	**< 7.5**