KPMG

Limpopo Province Department of Public Works

Draft Strategic Finance Operational Risk Assessment Report

15 December 2006

15 December 2006
This report contains 34 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.

Subsequent to the strategic risk workshop an operational risk assessment workshop for Strategic Finance was facilitated by KPMG on 13 December 2006 to identify potential risk areas' threatening the achievement of Strategic Finance's operational objectives.

The main purpose of this workshop was to involve and assist the General Manager: Strategic Finance and Management from the programme in assessing and prioritising the risks that need to be managed in order to achieve the vision and vision of DPW as well as the operational objectives of Strategic Finance. The workshop was also designed to assist Strategic Finance 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:

- Senior Managers; and
- Managers.

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

It is important to note that risk management is the responsibility of the General Manager: Strategic Finance and Management of the programme. **KPMG's responsibilities are limited to the facilitation of the operational risk assessment (ranking of the identified operational 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 operational 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 and mission and Strategic Finance's operational 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 Finance's operational objectives

The **operational objectives** of Strategic Finance are as follows:

- *"Maintenance of an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective; and*
- *Maintenance of effective, efficient and transparent systems of financial and risk management and internal control."*

The risk assessment was performed taking the Strategic Finance's operational objectives into account by consistently asking the question:

"What are the major threats that could prevent Strategic Finance from achieving its operational 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 operational risk workshop were to:

- Confirm DPW's vision and mission and operational objectives of Strategic Finance;
- Confirm the significant and major risks, identified by management 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 Strategic Finance'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 Strategic Finance, 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 Strategic Finance'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 Management and the General Manager: Strategic Finance have put in place, and rely upon, to manage the major and significant risks. At this operational 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 Strategic Finance 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 and mission of DPW as well as the operational objectives of Strategic Finance. The risks identified by the workshop participants of Strategic Finance 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.

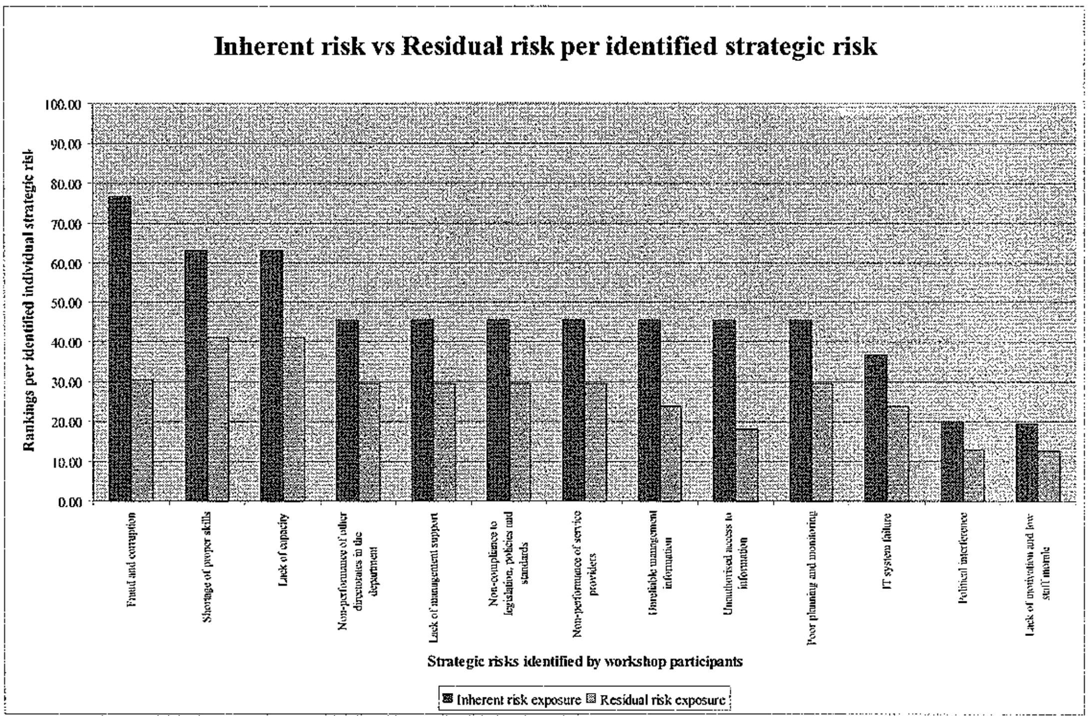
The results of the risk assessment workshop, from highest to lowest inherent risk, have been depicted graphically in **Paragraph 4.1**.

The major / significant risks currently faced by Strategic Finance, 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 operational risks are depicted graphically below.



4.1.2 Risk graph

The relative size of operational risks threatening the achievements of DPW's vision and mission and operational objectives of Strategic Finance 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.

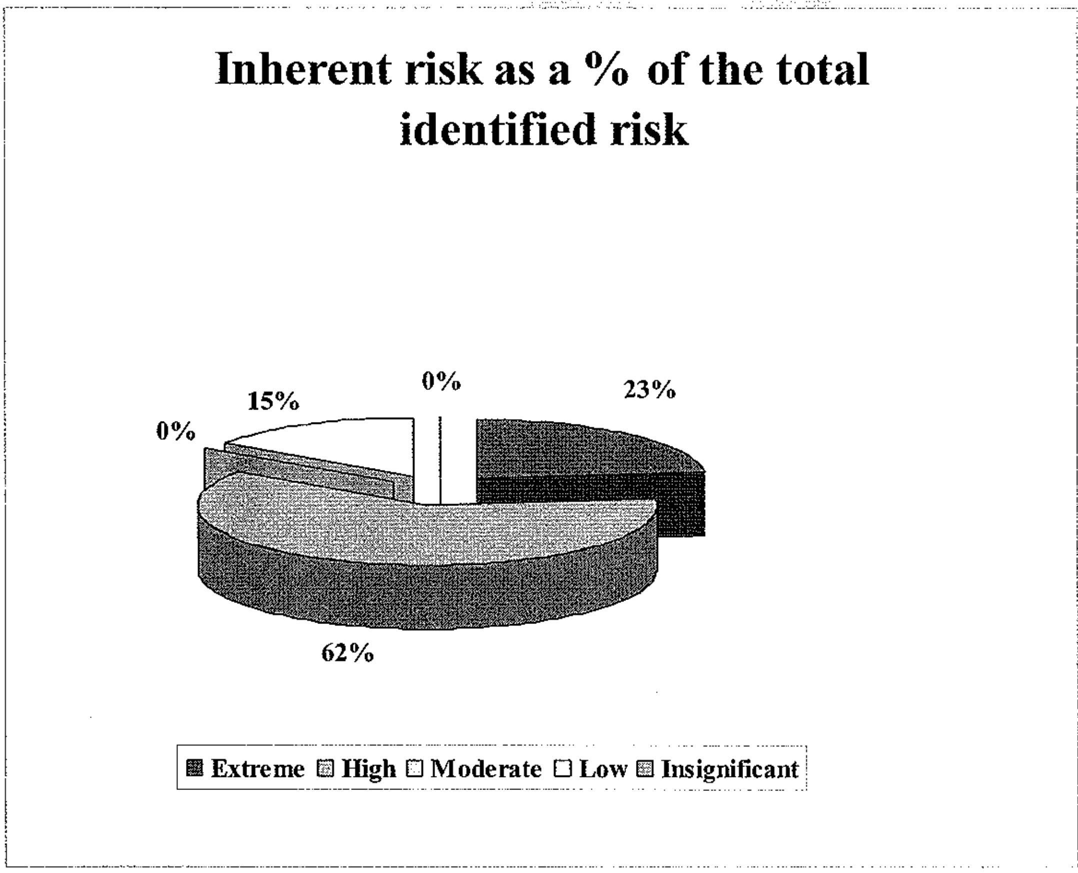
The smaller the difference between the inherent and residual risk factors, the more management actions and improved control effectiveness is needed to ensure that the risk is properly managed.

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 13 operational risks identified by Management of Strategic Finance 3 (23%) were assessed as extreme by the participants attending the risk workshop.



Risks rated with extreme inherent risk ratings are as follows:

- Fraud and corruption;
- Shortage of proper skills; and
- Lack of capacity.

Risks rated with high inherent risk ratings are as follows:

- Non-performance of other directorates in the department;
- Lack of management support;
- Non-compliance to legislation, policies and standards;
- Non-performance of service providers;
- Unreliable management information;
- Unauthorised access to information;
- Poor planning and monitoring; and
- IT system failure.

Risks rated with moderate inherent risk ratings are as follows:

- None identified by workshop participants.

Risks rated with low inherent risk ratings are as follows:

- Political interference; and
- Lack of motivation and low staff morale.

Risks rated with insignificant inherent risk ratings are as follows:

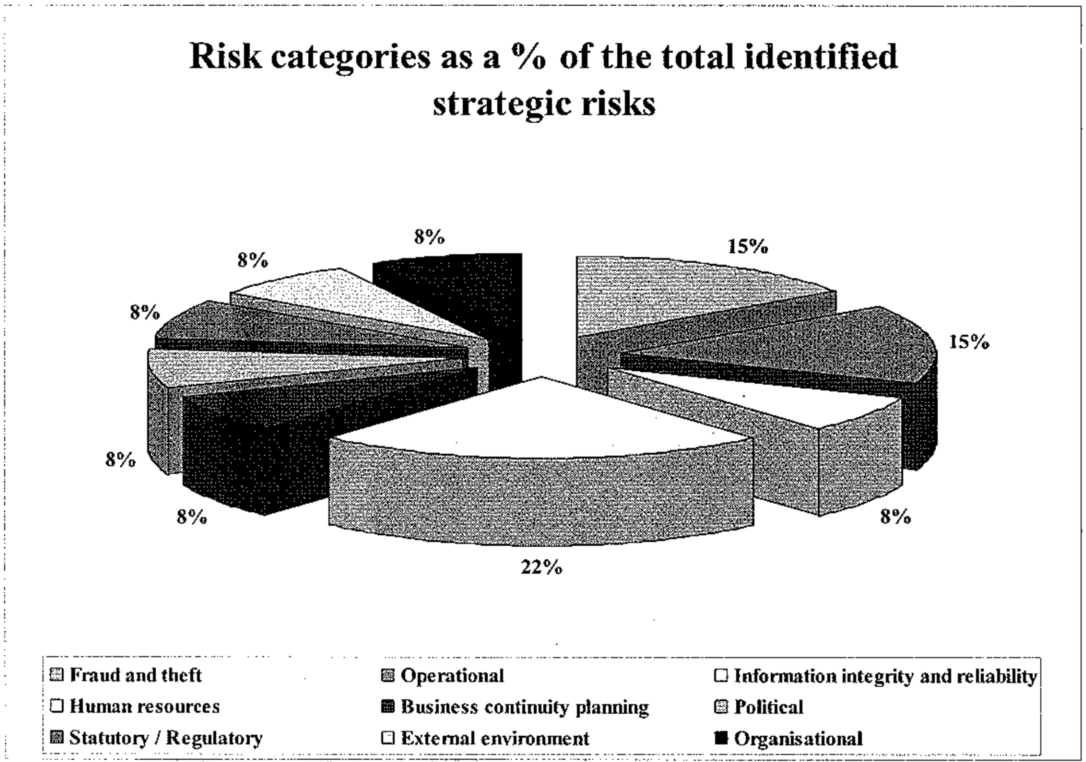
- None identified by workshop participants.

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 Management, General Manager: Strategic Finance and Internal Audit attention the item should attract.

4.1.4 Identified risk categories

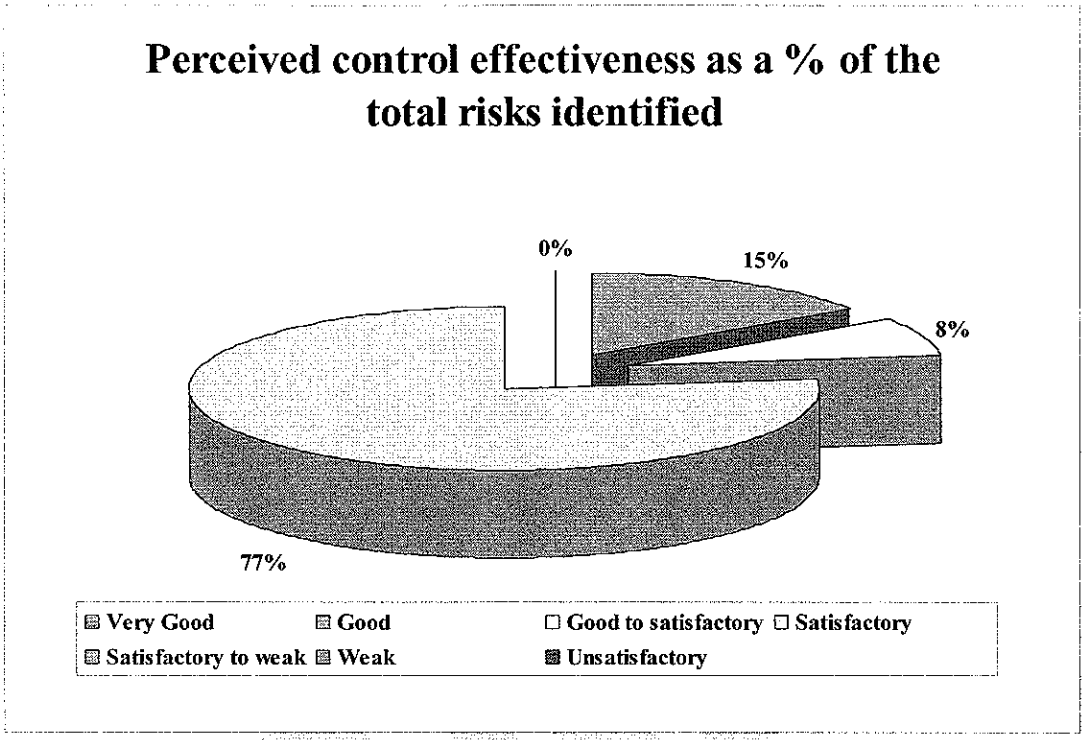
The 13 operational risks identified by management were categorised into 9 identified risks categories. This clearly indicates that risk from both an internal and external environment were identified. It also clearly indicates that risk from both core and support processes were identified.



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, 13 operational risks were identified by management. Of the 13 operational risks identified by management all the risks have been evaluated either as satisfactory or good by the participants attending the workshop.

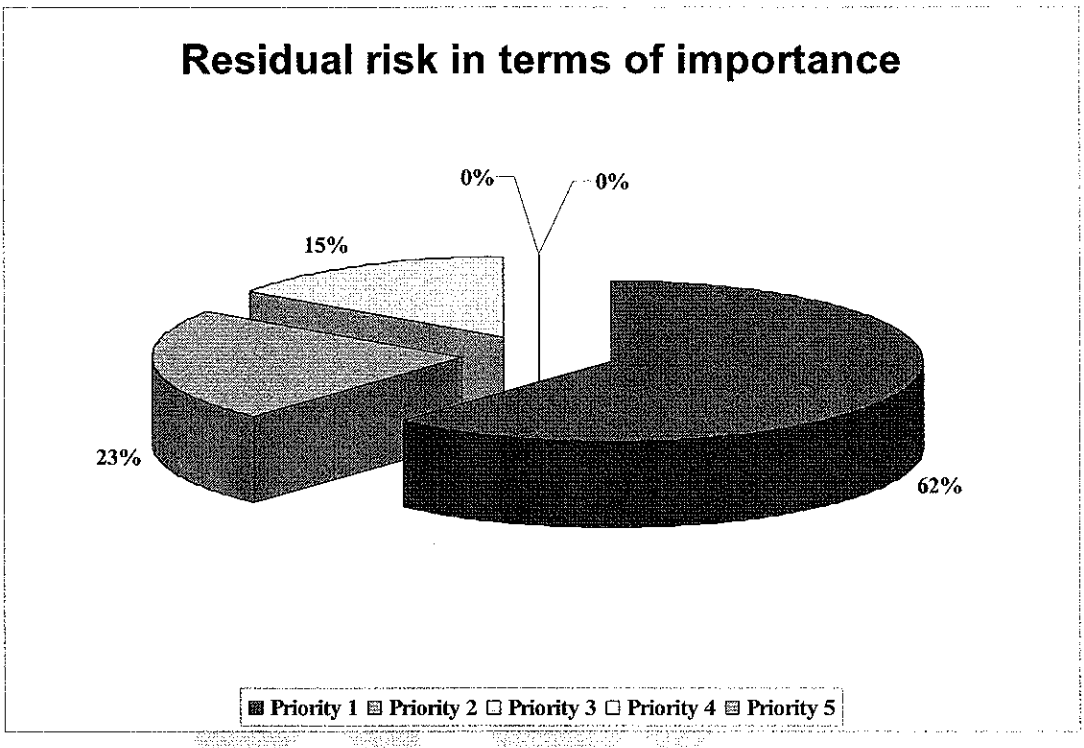


Management should assess whether the assessments and this analysis is correct and take appropriate corrective action.

4.1.6 Residual risk

The residual graph represents the highest assessed risks faced by Strategic Finance after taking into account the existing controls and their perceived control effectiveness. The higher the residual risk, the greater Strategic Finance'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:*

- Fraud and corruption;
- Shortage of proper skills;
- Lack of capacity;
- Non-performance of other directorates in the department;
- Lack of management support;

- Non-compliance to legislation, policies and standards;
- Non-performance of service providers; and
- Poor planning and monitoring.

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

- Unreliable management information;
- Unauthorised access to information; and
- IT system failure.

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

- Political interference; and
- Lack of motivation and low staff morale.

*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 the workshop participants.

4.2 Summary of operational risks confirmed during the workshop

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
1	**Fraud and corruption** - Theft - Lack of separation of duties	Financial loss Harm to reputation Inability to meet targets Cost inefficiencies Poor quality of service delivery	1, 2	Fraud and theft	Key assets Alliances	Senior Managers	85.00	0.90	76.50	Legislation and policies Disciplinary procedures for transgressors National and provincial fraud prevention strategy Implemented provincial anti-fraud and corruption hotline Approved departmental fraud prevention plan Provincial COPCOC monthly meetings Physical security Logical access controls Approved and implemented delegation of authority Segregation of duties Fraud Awareness Campaigns (Induction) Reporting of fraud related activities to SAPS and Public Service Commission	0.40	Implement awareness campaigns **Deadline date: 31 March 2007** **Responsible Official: Manager: Anti-fraud and corruption** Filling of vacancies **Deadline date: 31 March 2007** **Responsible Official: Chief Financial Officer**	30.60

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
2	**Shortage of proper skills** - Mismatched skills - Inadequate skills - Inappropriate skills	Inability to meet targets Cost inefficiencies Poor quality of service delivery Increase in fraud and corruption	1, 2	Human Resources	Key assets	Senior Managers	70.00	0.90	63.00	Approved Annual Workplace Skills Plan In-service training / on the job training Completion of Skills audit (September 2006) Implemented Performance Management System Implemented job rotation Use of bursaries Internships Leanerships Approved job descriptions	0.65	Follow-up and monitor implementation of training plan by Human Resources **Deadline date: 31 March 2007** **Responsible Official: Senior Managers** Implementation of intervention plans for individuals **Deadline date: 31 January 2007** **Responsible Official: Supervisors**	40.95
3	**Lack of capacity** - Vacancies - High staff turnover	Inability to meet targets and deadlines Institutional memory loss Lack of continuity Poor performance	1, 2	Human Resources	Key assets	Chief Financial Officer	70.00	0.90	63.00	Approved organogram linked to resources Approved and implemented Annual Business Plan Outsourcing Attendance and participation of monthly management meetings Implemented Performance Management System	0.65	Filling of vacancies **Deadline date: 31 March 2007** **Responsible Official: Chief Financial Officer** Develop retention plan in line with Human Resources retention policy **Deadline date: 31 March 2007** **Responsible Official: Chief Financial Officer**	40.95

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
										Implemented Employee Wellness Programme			
4	Non performance of other directorates in the department	Inability to meet targets and deadlines Harm to reputation Cost inefficiencies Poor decision making	1, 2	Operational	Alliances Key assets	Senior Managers	70.00	0.65	45.50	Correspondence with other Directorates Monthly budget review meetings Approved and implemented 5 year Strategic Plan Attendance of annual strategic session (Lekgotla) Participation and attendance of monthly budget committee Implementation of monthly management reports Implemented service delivery standards (Batho Pele) Attendance and participation at Monthly EXCO meetings Implemented Performance Management System Reporting against targets on a monthly basis	0.65	Request timely submission of business plans and cash flow projections **Deadline date: 31 January 2007** **Responsible Official: Senior Managers** Investigate the possibility of entering into Service Level Agreements with other directorates **Deadline date: 31 March 2007** **Responsible Official: Senior Managers**	[illegible]

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
5	**Lack of management support**	Inability to meet targets Poor service delivery Poor performance Cost inefficiencies Incorrect management decisions	1, 2	Organisational	Strategic Management Process	Senior Managers	70.00	0.65	45.50	Approved and implemented delegations of authority Participation and attendance of monthly component meetings Participation and attendance of monthly EXCO meetings Approved and implemented Annual Business Plan with reporting thereon Monthly management reporting Monthly progress reporting Monthly CFO's forums Correspondence with other Directorates	0.65	Request quarterly meetings with the Chief Financial Officer **Deadline date:31 March 2007** **Responsible Official: Senior Manager: Financial Management**	[illegible]
6	**Non compliance to legislation, policies and standards**	Possible prosecution Financial loss Negative publicity and harm to reputation	1, 2	Statutory	Key assets External forces and agents	Chief Financial Officer	70.00	0.65	45.50	Awareness campaigns Implemented disciplinary procedures for transgressors Use of checklists Circulars	0.65	Develop and implement relevant procedure manuals **Deadline date: 30 June 2007** **Responsible Official: Senior Managers**	29.58

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
										Monthly financial report Approved and implemented procedure manuals Signed Code of Conduct Approved and implemented Annual Business Plans Inspections Verification Implemented Performance Management System			
7	**Non performance of service providers**	Inability to meet targets Cost inefficiencies Poor quality of service delivery Harm to reputation	1	External environment	Alliances External forces and agents	Senior Manager: Supply Chain Management	70.00	0.65	45.50	Implemented Supply Chain Management process Signed contract with each contractor with penalty clauses Signed Service Level Agreements with service providers Scheduled meetings with service providers Briefing sessions Correspondence	0.65	Introduce awareness with the service providers **Deadline date: Continuous** **Responsible Official: Senior Manager: Supply Chain Management** Develop monitoring tool for site visits **Deadline date: January 2007** **Responsible Official: Senior Manager: Supply Chain Management**	29.58

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
												Inspections (site visits) **Deadline date: 31 March 2007** **Responsible official: Senior Manager: Supply Chain Management** Investigate rewards for performing service providers **Deadline date: 31 March 2007** **Responsible Official: Chief Financial Officer** Categorisation and classification of suppliers on the database **Deadline date: 30 June 2007** **Responsible Official: Senior Manager: Supply Chain Management** Implement optimal utilisation of electronic database (non-performing service providers) **Deadline date: 31 March 2007**	

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
												Responsible Official: Senior Manager: Supply Chain Management	
8	**Unreliable management information** - Information management system	Inability to make informed decisions Inability to meet deadlines and targets Cost inefficiencies Poor performance	2	Information integrity and reliability	Key assets	Senior Managers	70.00	0.65	45.50	Use of exception reporting Monthly reporting process within DPW Supervisory reviews Implemented Performance Management System	0.53	Give input on modification of financial system **Deadline date: 31 March 2007 Responsible Official: Senior Manager: Financial Management** Conduct awareness campaigns regarding movement of assets **Deadline date: 31 March 2007 Responsible Official: Senior Manager: Supply Chain Management**	23.89
9	**Unauthorised access to information**	Harm to reputation Negative public perception Fraud and corruption Financial loss	1, 2	Fraud and theft	Key assets	Senior managers	70.00	0.65	45.50	Use of logical access controls e.g. passwords Approved and implemented Delegation of Authority Physical access control e.g. security guards, alarms etc	0.40	Conduct awareness campaigns related to authorised information and work ethics **Deadline date: 30 April 2007**	18.20

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
										Promotion to access of information act and protection of information act Classification of documents Signed oath of secrecy by employees Proper storage of records Segregation of duties Use of security bags Approved information security policy		**Responsible Official: Senior Manager: Risk**	
10	**Poor planning and monitoring**	Inability to meet deadlines and targets Cost inefficiencies Poor performance	1, 2	Operational	Key assets Segmentation	Chief Financial Officer	70.00	0.65	45.50	Approved and implemented assets management policy Attendance and participation at annual strategic planning session In year monitoring through reporting mechanisms Achievability exercise Approved and implemented MTEF budget Monthly budget monitoring meetings and reporting mechanisms	0.65	Request timely submission of business plans and cash flow projections by other directorates **Deadline date: 31 January 2007** **Responsible Official: Senior Managers** Report outstanding business plans and cash flow projections to Head of Department **Deadline date: 28 February 2007**	[illegible]

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
												Responsible Official: Chief Financial Officer	
11	**IT system failure**	Loss of productivity Increased cost of service delivery Financial loss Poor decision making process Inaccurate corporate reporting	1, 2	Business continuity planning	Key assets	Chief Financial Officer	70.00	0.53	36.75	Back-up power supply Approved and implemented disaster recovery plan Approved and implemented infrastructure plan Signed Service Level Agreement (SLA) with State Information Technology Agency (SITA) for outsourced transversal systems and WAN Information Technology support Identified system controllers In case of failure make use of IT systems at other departments	0.65	None identified	23.89
12	**Political interference**	Inability to meet targets Inability to meet deadlines	1	Political	External forces and agents	Chief Financial Officer	50.00	0.40	**20.00**	Legislation Approved and implemented Annual Business Plan	0.65	None identified	**13.00**

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
										Implemented policies and procedures regarding political interference Participation and attendance of monthly executive management meetings Implemented delegation of authority Attendance and participation at CFO forums			
13	**Lack of motivation and low staff morale**	Poor performance Inability to meet targets and deadlines Cost inefficiencies Increase in fraud related activities	1, 2	Human Resources	Key assets	Chief Financial Officer	30.00	0.65	**19.50**	Implemented Employee Wellness Program Implemented Performance Management System Attendance and participation at Monthly strategic finance management meeting	0.65	Filling of vacancies **Deadline date: 31 March 2007 Responsible Official: Chief Financial Officer** Improve work plan targets to reflect measurable targets and monitor progress regularly **Deadline date: 31 March 2007 Responsible Official: Senior Managers**	**12.68**

Strategic risk number	Risk description	Consequence of risk	Link to strategic focus area	Risk categories	Link to dependency profile	Risk owner	Impact	Likelihood	Inherent risk exposure	Current controls	Perceived control effectiveness	Additional Actions	Residual risk exposure
												Acknowledge employee performance **Deadline date: 30 June 2007** **Responsible Official: Senior Managers** Nominate officials for MEC's service excellent awards **Deadline date: to be announced by MEC** **Responsible Official: Senior Manager**	

5 The way forward

Having completed the Strategic Finance 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 operational 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 operational level risk assessment workshop has provided a basis for commencing the implementation of a formal risk management framework at Strategic Finance.

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

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 Strategic Finance, 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 Strategic Finance - 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.
- Gradually formalise and approve a risk strategy that is aligned with and supports the achievement of Strategic Finance's operational 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 Executive Committee mandate or may be allocated to a separate body that reports back at Executive Committee meetings.
- Appoint / identify a dedicated "Chief Risk Officer" responsible for coordinating and analysing Strategic Finance'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.

5.1.1.4 Integrated risk assessments and risk management activities

- Maintain the Operational Risk Register current and up to date – including a formal risk identification and assessment process conducted at least annually.
- Incorporate the identified operational risks into both the operational plan for 2007 / 2009 and the annual plans.
- Allocate responsibility for each individual 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 sub-process level risk workshops.

  Sub-process level risk workshops should be conducted to reach consensus regarding:
  - Related sub-process level objectives and risks;
  - The alignment of the above with operational 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 Directorates, Management, General Manager: Strategic Finance 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.

A Strategic Finance 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 General Manager: Strategic Finance and all workshop participants of Strategic Finance for their cooperation and participation in the workshop.

Appendix A – Dependency Profile

Draft Strategic Financial Management Dependency Profile

External Forces and Agents

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

Strategic Objectives

Maintenance of an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective

Maintenance of effective, efficient and transparent systems of financial and risk management and internal control

Strategic Management Process

Strategic issues

Key assets

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

Markets

Other divisions within DPW

Citizens

Business

All tiers of Government

Interest Groups

Segmentation

Financial Management

Risk Management

Logistics and inventory

Bids management and advisory management

Alliances

Other business units within DPW

National Ministry

Other Limpopo Provincial Department

Public / Private Partnerships

Municipalities

Preferred service providers

Contractors

Non profit organisations

Trade unions

Professional institutions

Competitors

Private Sector
Contractors

Appendix B - 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