



**Limpopo Province Department of  
Public Works**

**Final EPWP Operational Risk  
Assessment Report  
6 March 2007**

6 March 2007  
This report contains 34 pages

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# 1 Introduction

We were requested to facilitate one 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 1 December 2006.

Subsequent to the strategic risk workshop an operational risk assessment workshop for Expanded Public Works Programme (EPWP) was facilitated by KPMG on 8 December 2006 to identify potential risk areas' threatening the achievement of EPWP's operational objective. The EPWP risk management framework, which was part of the Provincial 5 year Business Plan, was used as the starting point for the risk assessment workshop.

The main purpose of this workshop was to involve and assist the General Manager: EPWP 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 objective of EPWP. The workshop was also designed to assist EPWP 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:

- General Manager: EWPW;
- 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 EPWP's operational risks and related controls. **The report does not seek to identify all risks faced by EPWP. 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: EPWP 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 EPWP's operational objective 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 EPWP operational objective**

The **operational objective** of EPWP is:

*"A well co-ordinated Provincial Expanded Public Works Programme."*

The risk assessment was performed taking the EPWP operational objective into account by consistently asking the question:

***"What are the major threats that could prevent EPWP from achieving its operational objective?"***

### 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 objective of EPWP;
- 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 EPWP'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 EPWP, 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 EPWP'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
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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
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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: EPWP 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
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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 EPWP 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 objective of EPWP. The risks identified by the workshop participants of EPWP 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.

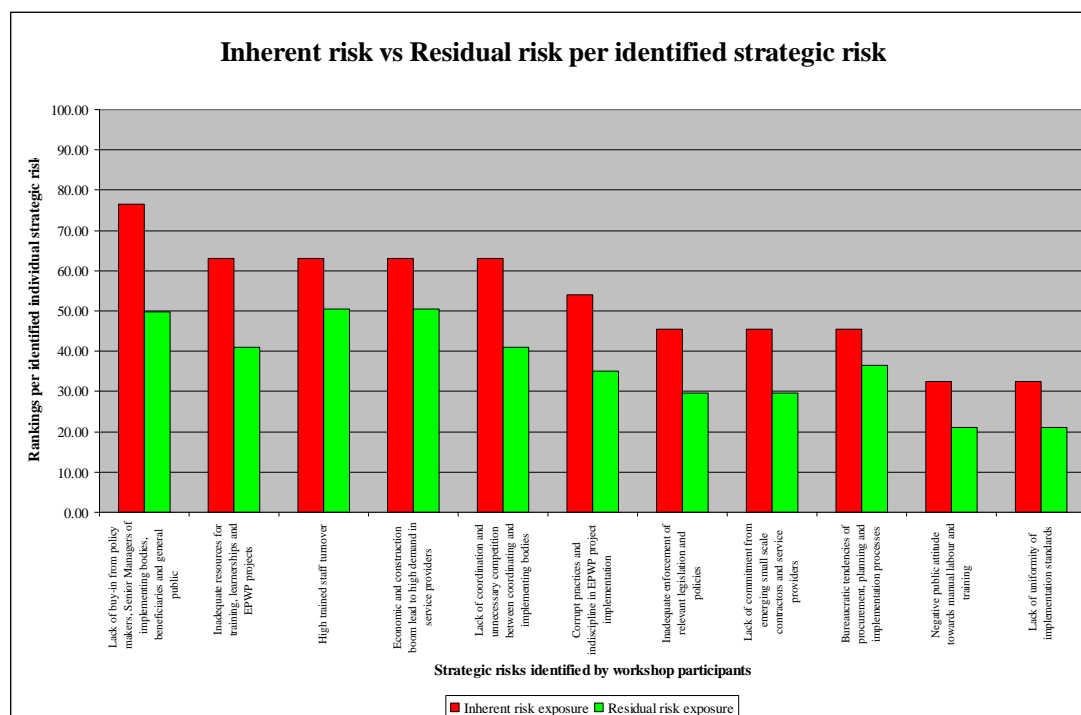
The results of the risk assessment workshop, from highest to lowest inherent risk, have been depicted graphically in **Paragraph 4.1**.

The major / significant risks currently faced by EPWP, 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 objective of EPWP 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.

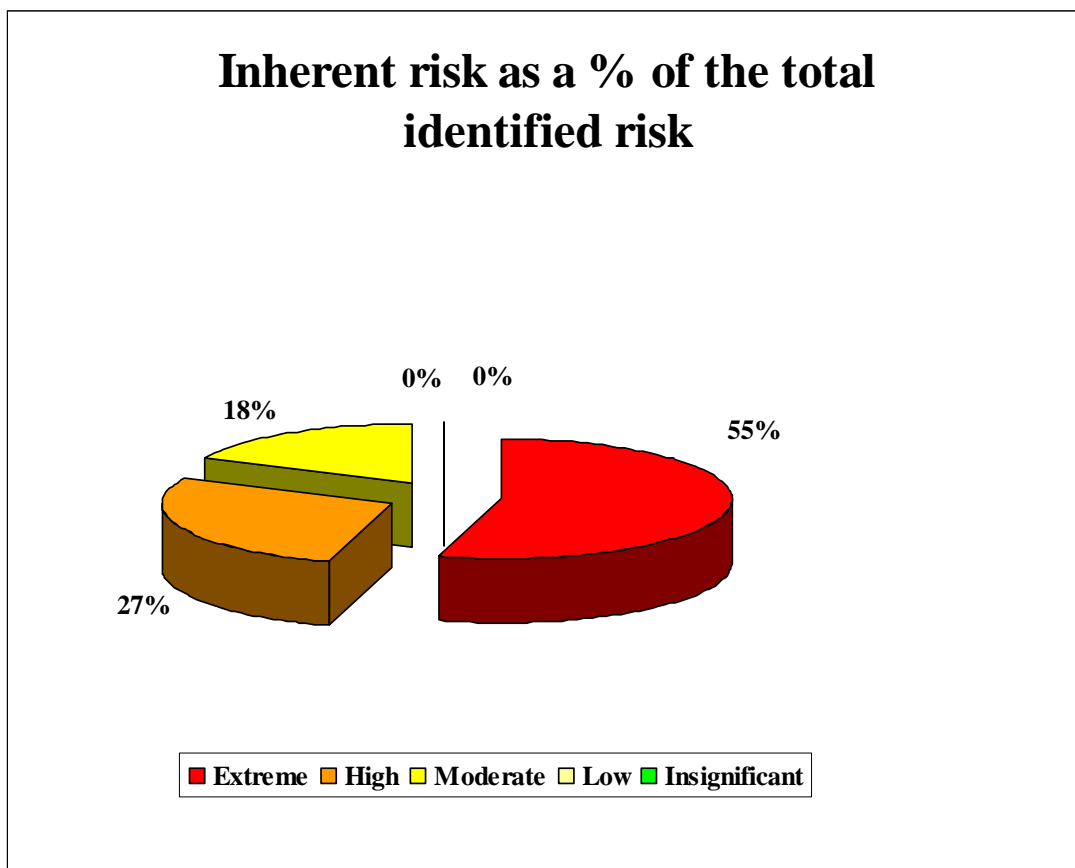
The smaller the difference between the inherent and residual risk factors, the more management actions and improved control effectiveness is needed to ensure that the risk is properly managed.

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 11 operational risks identified by Management of EPWP 6 (55%) was assessed as extreme by the participants attending the risk workshop.



*Risks rated with extreme inherent risk ratings are as follows:*

- Lack of buy-in from policy makers, Senior Managers of implementing bodies, beneficiaries and general public;
- Inadequate resources for training, learnerships and EPWP projects;
- High trained staff turnover;

- Economic and construction boom lead to high demand in service providers;
- Lack of coordination and unnecessary competition between coordinating and implementing bodies; and
- Corrupt practices and indiscipline in EPWP project implementation.

*Risks rated with high inherent risk ratings are as follows:*

- Inadequate enforcement of relevant policies and procedures;
- Lack of commitment from emerging small scale contractors and service providers; and
- Bureaucratic tendencies of procurement, planning and implementation processes.

*Risks rated with moderate inherent risk ratings are as follows:*

- Negative public attitude towards manual labour and training; and
- Lack of uniformity of implementation standards.

*Risks rated with low inherent risk ratings are as follows:*

- None identified by the workshop participants.

*Risks rated with insignificant inherent risk ratings are as follows:*

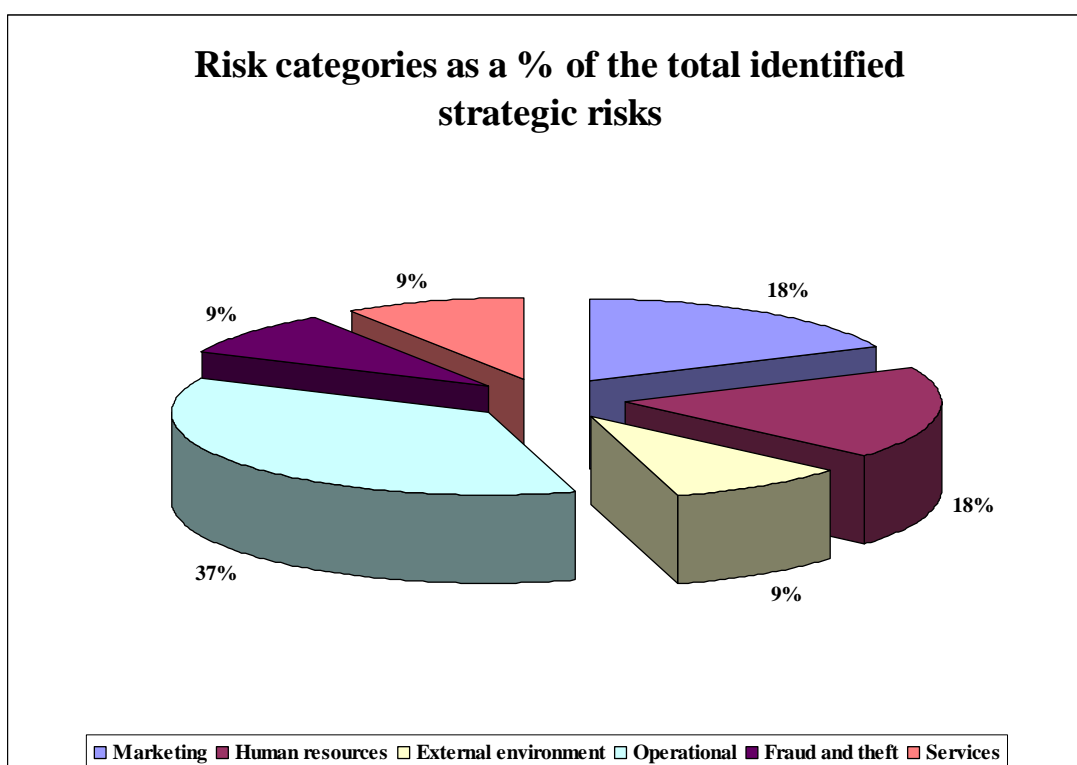
- None identified by the workshop participants.

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: EPWP and Internal Audit attention the item should attract.

#### 4.1.4 Identified risk categories

The 11 operational risks identified by management were categorised into 6 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.



The individually identified strategic risks pertaining to each risk category has been listed in the table below.

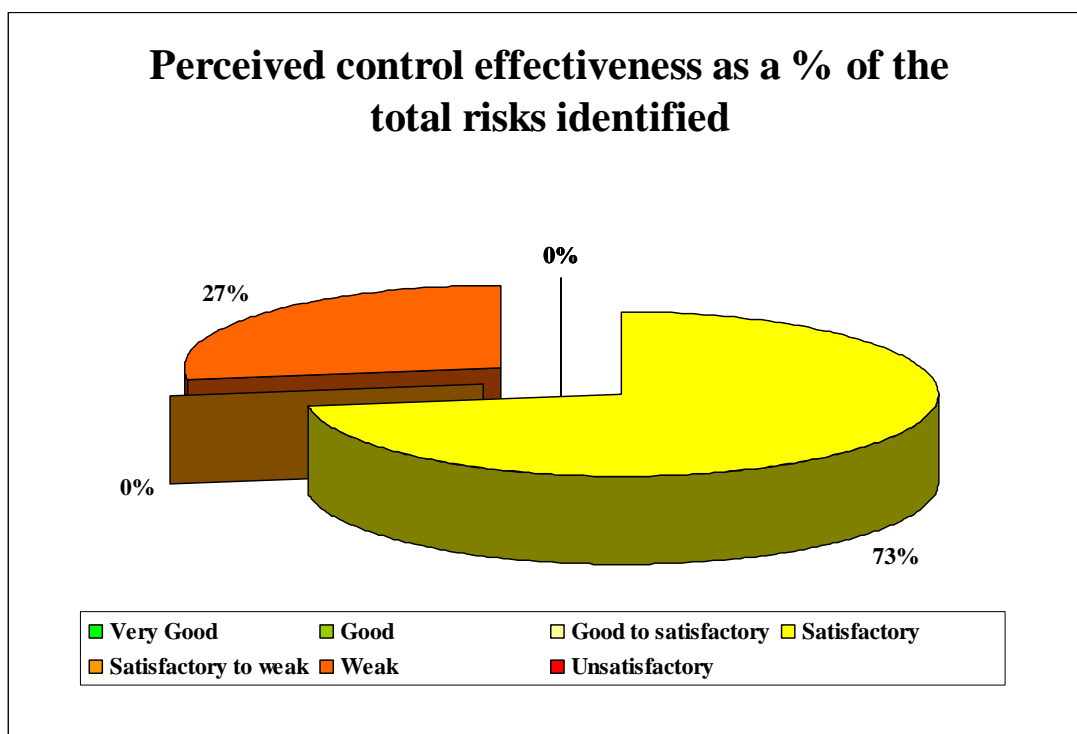
Identified risk categories with individual risks listed		
<u>Services</u> Lack of commitment from emerging small scale contractors and service providers	<u>Human Resources</u> Inadequate resources for training, learnerships and EPWP projects High trained staff turnover	<u>Fraud and theft</u> Corrupt practices and indiscipline in EPWP project implementation

Identified risk categories with individual risks listed		
<u>Marketing (Advocacy and intergovernmental relations)</u> Lack of buy-in from policy makers, senior managers of implementing bodies, beneficiaries and general public Negative public attitude towards manual labour and training	<u>Operational</u> Lack of co-ordination and unnecessary competition between coordinating and implementing bodies Inadequate enforcement of relevant legislation and policies Bureaucratic tendencies of procurement, planning and implementation processes Lack of uniformity of implementation standards	<u>External environment</u> Economic and construction boom lead to high demand in service providers

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 operational risks were identified by management. Of the 11 operational risks identified by management 3 (27%) were evaluated as weak by the participants attending the workshop.



The perceived control effectiveness of each individually identified strategic risks pertaining to each control effectiveness category has been listed in the table below.

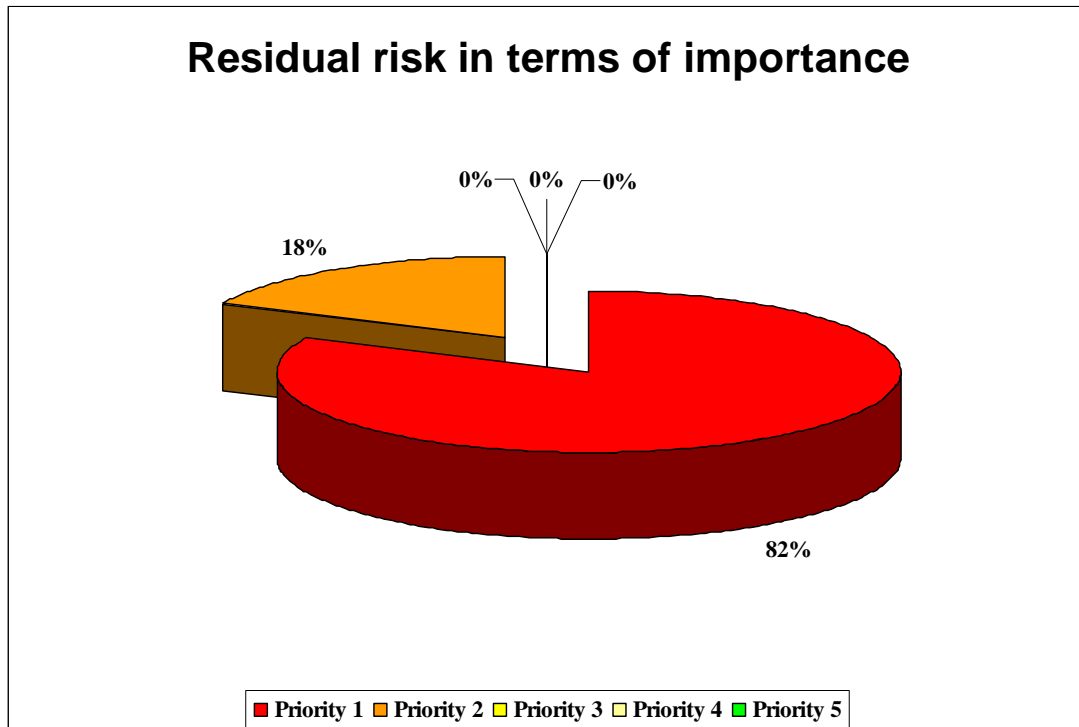
<b>Individual risks per identified control effectiveness category</b>		
<u><b>Satisfactory</b></u> Lack of buy-in from policy makers, senior managers of implementing bodies, beneficiaries and general public Negative public attitude towards manual labour and training Lack of co-ordination and unnecessary competition between coordinating and implementing bodies Inadequate enforcement of relevant legislation and policies Lack of uniformity of implementation standards Lack of commitment from emerging small scale contractors and service providers Inadequate resources for training, learnerships and EPWP projects Corrupt practices and indiscipline in EPWP project implementation	<u><b>Weak</b></u> High trained staff turnover Economic and construction boom lead to high demand in service providers Bureaucratic tendencies of procurement, planning and implementation processes	

73% of controls managing the risks are perceived to be satisfactory. 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 EPWP after taking into account the existing controls and their perceived control effectiveness. The higher the residual risk, the greater EPWP'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:*

- Lack of buy-in from policy makers, Senior Managers of implementing bodies, beneficiaries and general public;
- Inadequate resources for training, learnerships and EPWP projects;
- High trained staff turnover;
- Economic and construction boom lead to high demand in service providers;



- Lack of coordination and unnecessary competition between coordinating and implementing bodies;
- Corrupt practices and indiscipline in EPWP project implementation;
- Inadequate enforcement of relevant policies and procedures;
- Lack of commitment from emerging small scale contractors and service providers; and
- Bureaucratic tendencies of procurement, planning and implementation processes.

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

- Negative public attitude towards manual labour and training; and
- Lack of uniformity of implementation standards.

*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 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	<b>Lack of buy-in from policy makers, Senior Managers of implementing bodies, beneficiaries and general public</b>	Inability to meet targets and deadlines; Cost inefficiencies; Harm to reputation.	1	Marketing (Advocacy and inter governmental relations)	Key assets Alliances	General Manager	85.00	0.90	<b>76.50</b>	Approved and implemented Departmental Strategic Plan; Approved and implemented Annual Performance Plan; Approved and implemented Five Year Business Plan; Use of Steering, Coordination and Four Sector Committees; Identified appointed champions in government bodies; Approved implementing guidelines (National); Monthly and quarterly reports to provincial cluster committees; DORA; Use of promotional material.	0.65	Conduct continued awareness and sensitisation exercises through workshops, seminars, promotional materials <b>Deadline date:31 March 2007</b> <b>Responsible Official: Senior Managers</b>  Targeted short courses for managers of programmes and projects <b>Deadline date: 31 March 2007</b> <b>Responsible Official: Senior Managers</b>  Identification and appointment of champions with relevant authority <b>Deadline date: 31 March 2007</b> <b>Responsible Official: General</b>	<b>49.73</b>

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
												<b>Manager</b>	
2	<b>Inadequate resources for training, learnerships and EPWP projects</b>	Inability to meet targets; Cost inefficiencies; Poor quality of service delivery; Institutional memory loss; Lack of continuity.	1	Human resources	Key assets	General Manager and relevant Senior Manager	70.00	0.90	<b>63.00</b>	Approved and implemented Departmental Strategic Plan; Approved and implemented Annual Performance Plan; Approved and implemented Five Year Business Plan; National training learnership targets; Implemented Performance Management System; Implemented individual training plans; Approved and implemented Workplace Skills Plan; Sector business plans; Integrated Development Plans; National Skills Fund; Approved and implemented training material and procedures;	0.65	Develop a consolidated training plan <b>Deadline date: 31 March 2007</b> <b>Responsible Official: General Manager</b>  Identify budget for additional resources to supplement SETAs funding <b>Deadline date: 31 March 2007</b> <b>Responsible Official: General Manager</b>	<b>40.95</b>

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
										Use of accredited training providers.			
3	<b>High trained staff turnover</b> - Inter-provincial migration	Inability to meet targets; Cost inefficiencies; Poor quality of service delivery; Institutional memory loss; Lack of continuity.	1	Human resources	Key assets	General Manager	70.00	0.90	<b>63.00</b>	Implemented Performance Management System; Implemented Employee Assistance Programme; Approved and implemented Work Skills Plan; Use of Study tours; Use of bursaries.	0.80	Identify and propose specific training needs to HRD and follow up the submission <b>Deadline date: 31 May 2007</b> <b>Responsible Official: Senior Manager</b>  Liaise with Human Resources Management on approval of structure <b>Deadline date: 30 April 2007</b> <b>Responsible Official: General Manager</b>	<b>50.40</b>
4	<b>Economic and construction boom lead to high demand in service providers</b> - Leads to sub standard work	Inability to meet targets; Cost inefficiencies; Poor quality of service delivery; Harm to reputation.	1	External environment	Alliances	Sector coordinators	70.00	0.90	<b>63.00</b>	Implemented Supply Chain Management process; Signed service level agreement with each service provider including penalty clauses; Implemented training plan; Accredited service providers listing.	0.80	Develop a consolidated training plan <b>Deadline date: 31 March 2007</b> <b>Responsible Official: General Manager</b>  Coordinate the upscaling of the EPWP project	<b>50.40</b>

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
												<b>Deadline date: 30 June 2007 Responsible Official: General Manager</b>	
5	<b>Lack of coordination and unnecessary competition between coordinating and implementing bodies</b> - Conflict of interest	Inability to meet targets; Harm to reputation.	1	Operational	Alliances Key assets	General Manager Sector Coordinators	70.00	0.90	<b>63.00</b>	Monthly sector coordination meeting; Quarterly project coordination meeting; Quarterly steering committee meeting; Individual job descriptions; Developed implementation plan; Bi-weekly cluster meeting; Bi-monthly national meeting; Quarterly national sector meeting; Monthly PMU meeting; Bi-weekly departmental management meeting; Quarterly Premier inter-governmental forum.	0.65	Clearly define roles and responsibilities in the Implementation Plan <b>Deadline date: 31 March 2007 Responsible Official: General Manager</b>  Continuous engagement with implementing bodies through workshops, promotional material, etc. <b>Deadline date: 30 June 2007 Responsible Official: Senior Managers</b>  Propose through the Premier's inter-governmental forum that HODs and Municipal Managers commit to adherence to the EPWP principles	<b>40.95</b>

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
												<b>Deadline date: 31 March 2007</b> <b>Responsible Official: General Manager</b>  Investigate the possibility of a collaboration agreement with other coordinating bodies <b>Deadline date: 31 August 2007</b> <b>Responsible Official: Senior Managers</b>	
6	<b>Corrupt practices and indiscipline in EPWP project implementation</b>	Financial loss; Harm to reputation; Inability to meet targets.	1	Fraud and theft	Key assets Alliances	Sector coordinators	60.00	0.90	<b>54.00</b>	Implemented Supply Chain Management process; Signed contract with each contractor with penalty clauses; Approved implementation guidelines; Implemented National Fraud Hotline with reporting to DPW; Approved Fraud Prevention Plan for DPW; Fraud Awareness Campaigns (Induction);	0.65	Propose that implementing agencies use CIDB standardised documents <b>Deadline date: 31 March 2007</b> <b>Responsible Official: Senior Managers</b>  Develop a monitoring plan <b>Deadline date: 31 March 2007</b> <b>Responsible Official: Senior Managers</b>	<b>35.10</b>

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
										Segregation of duties within EPWP; Approved and implemented delegation of authority; Approved and implemented policies and procedures within EPWP; Disciplinary action taken against defaulters; Reporting of fraud related activities to SAPS and Public Service Commission; Implemented National and Provincial anti-fraud and corruption guidelines.			
7	<b>Inadequate enforcement of relevant legislation and policies</b>	Inability to meet targets and deadlines; Cost inefficiencies; Harm to reputation;	1	Operational	Segmentation	Senior Managers	70.00	0.65	<b>45.50</b>	Approved and implemented EPWP implementation guidelines; Adherence to DORA; Use of Awareness campaigns; Attendance of quarterly Premier inter-governmental forum;	0.65	Develop a compliance checklist for use on all projects <b>Deadline date: 31 March 2007</b> <b>Responsible Official: Senior Managers</b>	<b>29.58</b>

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
										Attendance of monthly EXCO meeting; Attendance of monthly sector coordination meeting.			
8	<b>Lack of commitment from emerging small scale contractors and service providers</b> - Not sustainable	Inability to meet targets and deadlines; Cost inefficiencies; Financial loss; Harm to reputation.	1	Services	Alliances Key assets	Senior Managers	70.00	0.65	<b>45.50</b>	Implemented Supply Chain Management process; Signed service level agreement with each service provider including penalty clauses; Implemented training plan; Accredited service providers listing; Approved and implemented learnership agreements; Use of a learnership implementation plan.	0.65	Review selection procedures for learners and service providers <b>Deadline date: 30 June 2007</b> <b>Responsible Official: General Manager</b>  Review training performance evaluation tools <b>Deadline date: 31 May 2007</b> <b>Responsible Official: Senior Managers</b>  Undertake performance assessments for learners and service providers <b>Deadline date: 31 March 2008</b> <b>Responsible Official: Senior Managers</b>	<b>29.58</b>



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
9	<b>Bureaucratic tendencies of procurement, planning and implementation processes</b>	Inability to meet deadlines and targets; Cost inefficiencies; Silo mentality; Financial loss; Poor quality of service delivery.	1	Operational	Strategic Management Process	General Manager	70.00	0.65	<b>45.50</b>	Adherence to implemented Batho Pele principles; Approved and implemented Supply Chain Management Policy; Approved and implemented Performance Management System; Use of registers for document flow; Identified service standards; Approved and implemented Annual Performance Plan; Quarterly reporting to Premier inter-governmental forum; Attendance of monthly management meetings.	0.80	Review of service standards and make recommendations to relevant authorities <b>Deadline date: 31 December 2007</b> <b>Responsible Official: Senior Managers</b>  Quarterly review and update of Annual Performance Plan <b>Deadline date: 30 June 2007</b> <b>Responsible Official: All Managers</b>	<b>36.40</b>
10	<b>Negative public attitude towards manual labour and training</b>	Inability to meet targets and deadlines; Harm to reputation.	1	Marketing (Advocacy and inter governmental relations)	Markets	General Manager	50.00	0.65	<b>32.50</b>	President's mandate; Use of awareness campaigns; Adherence to DORA; Approved Implementation guidelines;	0.65	Develop a formalised awareness campaign plan <b>Deadline date: 31 March 2007</b>	<b>21.13</b>

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 social facilitation and community involvement / participation; Use of project steering committees.		<b>Responsible Official: Senior Managers</b> Identify short refresher courses for Project Managers <b>Deadline date: 31 March 2007</b> <b>Responsible Official: Senior Managers</b>  Showcase successful projects and good practices <b>Deadline date: 31 December 2007</b> <b>Responsible Official: General Managers</b>	
11	<b>Lack of uniformity of implementation standards</b>	Inability to meet targets and deadlines; Cost inefficiencies; Poor quality of service delivery.	1	Operational	Key assets Segmentation	General Manager	50.00	0.65	<b>32.50</b>	Attendance and participation at monthly sector coordination meeting; Approved and implemented Implementation guidelines; National gazette with guidelines for provincial standards (ministerial determination); Use of CIDB standards for uniformity;	0.65	Review service delivery standards and make recommendations to relevant authorities <b>Deadline date: 31 December 2007</b> <b>Responsible Official: Senior Managers</b>  Undertake work studies and research into implementation and activities (new areas)	<b>21.13</b>

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
										Participation and attendance of project steering and coordination committees; Yearly EXCO lekgotla; Approved and implemented Annual Performance Plan; Approved and implemented DPW Strategic Plan; RAL cost comparison research document.		<b>Deadline date: 31 December 2007 Responsible Official: Senior Managers</b>	

## **5 The way forward**

Having completed the EPWP 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 EPWP.

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

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 EPWP, 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 EPWP - 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 EPWP'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 EPWP’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: EPWP 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 EPWP 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: EPWP and all workshop participants of EPWP for their cooperation and participation in the workshop.

## Appendix A – Dependency Profile

### EPWP Dependency Profile

External Forces and Agents				
Legislation	Political	Media	Macro Economy	
Socio Economic Environment	Geographical spread	Environmental	Technology	
<b>Strategic Objectives</b> A well coordinated provincial Expanded Public Works Programme	<b>Strategic Management Process</b>	<b>Markets</b> Other divisions within DPW  Citizens  Business  All tiers of Government  Interest Groups	<b>Segmentation</b> EPWP coordination  Contractor developments	<b>Alliances</b> 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
	<b>Strategic issues</b>			
	<b>Key assets</b> Cash and Bank Land Buildings Information Technology assets Vehicle fleet Equipment and Furniture Intellectual capital and skills Reputation			
<b>Competitors</b> 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
<b>Catastrophic 100</b>	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%
<b>Critical 70</b>	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%
<b>Serious 50</b>	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
<b>Significant 30</b>	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
<b>Minor 10</b>	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.

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

### *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.

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

### *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	$\geq 50$
High	$\geq 35 < 50$
Moderate	$\geq 25 < 35$
Low	$\geq 15 < 25$
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	$\geq 25$
Priority 2	$\geq 17.5 < 25$
Priority 3	$\geq 12.5 < 17.5$
Priority 4	$\geq 7.5 < 12.5$
Priority 5	$< 7.5$