

RISK MANAGEMENT STRATEGY 2024/2025



public works & roads

Department:
Public Works and Roads
North West Provincial Government
REPUBLIC OF SOUTH AFRICA



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1. INTRODUCTION AND BACKGROUND

- 1.1 Managing risks is fundamental to the business of an organisation. The PFMA through section 38(1) (a) (i) requires the Accounting Officer to ensure that the Department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.
- 1.2 The King IV Report prescribes that an organisation should establish a risk management structure that will adequately identify measure, monitor, and control the risks involved in its various operations and lines of business.
- 1.3 The Department of Public Works and Roads (the Department) has adopted an enterprise-wide risk management (ERM) strategy which means that every key risk in each part of the Department will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into the Department's systems and processes, ensuring that our responses to risk remain current and dynamic.
- 1.4 All risk management efforts will be focused on supporting the Department's outcomes. Equally, they must ensure compliance with relevant legislation, and fulfil the expectations of employees, communities, and other stakeholders in terms of good corporate governance.
- 1.5 The risk management strategy gives effect to the realisation of the department's risk management policy, outlining how the high-level objectives as stated in the risk management policy are to be achieved. The risk management strategy also outlines how the risk management process will be improved over a period of time until the department reaches its desired risk maturity state.

2. DEFINITIONS

- 2.1 **RISK** - An unwanted outcome, actual or potential, to the department's service delivery and other performance objectives, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which Management must be aware of and be prepared to exploit. This definition of "risk" also encompasses such opportunities.
- 2.2 **RISK MANAGEMENT** - Risk Management is a continuous and proactive process, effected by management and other personnel, applied in strategic planning and across the department, designed to identify potential events that may affect the Department and manage risks to be within its risk tolerance and lastly to provide reasonable assurance that the Department's objectives will be achieved.
- 2.3 **ENTERPRISE-WIDE RISK MANAGEMENT (ERM)** – A strategic process to enable the Department to identify, measure, and manage the entire range of business risks and opportunities it is facing.
- 2.4 **RISK REGISTER** – a tool used to record departmental risks.
- 2.5 **RESIDUAL RISK** –The remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the remaining risk after Management has put in place measures to control the inherent risk).



- 2.6 **INHERENT RISK** - The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.
- 2.7 **RISK APPETITE** - a set maximum level of residual risk the department is willing to accept.
- 2.8 **RISK ACCEPTABLE LEVEL** - It is equal to or below the risk appetite. The department is not going to allocate resources to deal with this risk.
- 2.9 **CORPORATE GOVERNANCE** - Corporate governance involves mechanisms by which an organisation is directed and controlled. It is a corporate tool through which corporate management is held accountable for corporate conduct and performance. It is a strategic response to risk management.
- 2.10 **INTERNAL CONTROLS** - Mechanisms put into place to mitigate unacceptable levels of risk. Internal controls are a management's responsibility.

3. LEGAL MANDATE

The Public Finance Management Act, 1999 supplemented by the relevant Treasury Regulations has legislated key governance best practices. Section 38 (1) (a) of the Public Finance Management Act, 1999 requires that:

“The accounting officer has and maintains an effective, efficient and transparent systems of financial and Risk Management and internal control.”

(2) The extension of general responsibilities in risk management of sections 45 and 57 of the Public Finance Management Act, 1999 to all managers within the public sector implies that responsibility for Risk Management vests at all levels of management and that it is not limited to only the accounting officer and internal audit.

(3) The roles and responsibilities for the implementation of the Risk Management strategy are contained in the Treasury Regulations published in terms of the Public Finance Management Act, 1999. Section 3.2 and 27.2.1 of the regulations address Risk Management summarized as follows:

- (a) *The accounting officer must ensure that a risk assessment is conducted regularly to identify emerging risks for the institution.*
- (b) *The Risk Management strategy, which must include a fraud prevention plan, must be used to direct internal audit effort and priority and to determine the skills required of managers and staff to improve controls and to manage these risks.*
- (c) *The Risk Management strategy must be communicated to all officials to ensure that it is incorporated into the language and culture of the institution and embedded in the behaviour and mindset of its people.*

4. APPLICABILITY OF THE STRATEGY

The Risk Management strategy applies to the Department and all its employees, as well as all relevant stakeholders of the Department.

5. PURPOSE

5.1 The Risk Management strategy outlines a plan of how the department will implement its Risk Management policy, and how it will align effective Risk Management practices across the department into a common strategy that can be clearly understood and applied by all the department's employees and stakeholders.

5.2 The Risk Management Strategy assists the department in preventing and/or minimising the adverse effects of risks associated with its operations. The consideration of Risk Management should be applied at all stages of an activity, function, or project and is an integral part of the overall Risk Management process.

5.3 The Risk Management Strategy also outlines the department's planned actions for improving its risk maturity level during the 2024/25 financial year.

6. OBJECTIVES

The department's risk management policy was reviewed for the 2024/25 financial year. In terms of this strategy, the department has set the following risk management objectives:

- 6.1 Create an environment for compliance with key statutory and best practice risk management requirements and principles;
- 6.2 Recognise risk management as critical to the achievement of the department's service delivery goals;
- 6.3 Ensure that current and future material risk exposures of the Department are identified, assessed, quantified, appropriately mitigated, and managed;
- 6.4 Encourage a culture within the Department that is intolerant to unethical conduct, fraud, and corruption; and
- 6.5 Ensure the development of a mature risk management culture in terms of which every line manager and employee across the department thus taking a role in the management of risks within their areas of responsibilities, and escalating those risks that are beyond the scope of their authority or available resources.

The Risk Management Strategy and Implementation Plan will assist the department in achieving these objectives.

7. DESIRED OUTCOMES

When effectively implemented and maintained, risk management will enable the Department to achieve the following outcomes:

- Sustainable and reliable delivery of services;
- Informed and reliable decision-making and planning which are underpinned by appropriate rigour and analysis;
- Improved governance, and thus stakeholder confidence and trust;
- Improved project management;
- Effective allocation and efficient use of resources;
- Reduced Wastage/losses and poor value for money;
- Prevention of Fraud and Corruption; and
- Improved Health and Safe Working Environment.




Risk Management is recognised as an integral part of responsible management and the department therefore adopts a comprehensive approach to the management of risk. The features of this process are outlined in the Departmental Risk Management Strategy. It is expected that all programmes' operations and processes will be subject to the risk management strategy. It is the intention that these programmes will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

8. RISK MANAGEMENT MATURITY

During the 2023/24 financial year, the department's risk management maturity was assessed with the assistance of the Provincial Risk Management unit.

To address the identified gaps and areas of improvement, the department has put together an action plan for the financial year; this plan is outlined in the table below.

2024/25 RISK MANAGEMENT STRATEGY

FOCUS AREA	OVERALL MATURITY RATING SCORE	OBSERVATIONS	INITIATIVE/ACTION PLAN	DUE DATE	STATUS (refer to Legend)	COMMENTS
Status Legend - Completed:  - In progress:  - Not yet due: 						
Performance	Partial	Combined Assurance roles and responsibilities are not adequately defined for all assurance providers	Review the Combined Assurance framework to include well-defined roles and responsibilities	30/09/2024		The department will be mapping key risks to the different assurance providers.



9. RISK MANAGEMENT METHODOLOGY

The Department has adopted a risk management process that is in line with best practice by consulting with the Public Sector Risk Management Framework, ISO 31000: 2018, and the COSO Enterprise Risk Management – Integrated with Strategy and Performance 2017. The department intends to implement its department-wide risk management process, as follows:

FOCUS AREA	DESCRIPTION
Governance and Culture	This stage assists with setting the tone from the Top in the department, establishing responsibilities, and embedding the anticipated culture. i.e. establishment of a Risk Committee, Embedding of risk culture, establishment of Risk Management roles, and the capacitation thereof.
Strategy & Objective Setting	This stage provides the context of how the Department operates and its environment. It is in this phase, that the Risk Management process is aligned to the Departmental strategy. i.e. defining risk appetite, integration of the strategic risk process, and the Strategic planning process
Establishing the context, scope, and criteria	At this stage, both external and internal factors are considered when identifying and managing risks associated with the achievement of strategic and operational objectives.
Risk Identification	This stage requires the identification of risk sources, areas of impact, events, causes, and possible consequences to form a comprehensive list of risks based on those events that might create, enhance, prevent, degrade, accelerate, or delay the achievement of objectives
Risk Analysis	this sub-process considers the range of risk root causes, sources of risk, risk impacts/consequences, and likelihood/probability of risk occurrence to produce risk ratings.
Risk Evaluation	Risks must be quantified and prioritized through a systematic risk assessment process.
Risk Treatment	Appropriate response strategies must be developed and evaluated to reduce or eliminate threats and events that create risks. In addition, selecting one or more options for reducing risks including funding and other resource considerations.
Review & Revision	The entire risk management system must be periodically reviewed and evaluated to ensure continual improvements. Continual monitoring and reviewing of risk profiles is essential to maintain the effectiveness and appropriateness of the risk management profiles, including more specifically, risk treatment plans, and risk assessments and to identify emerging risks.
Information Communication and Reporting	The product of the risk assessment process is recorded in the form of risk registers which will ultimately be used for reporting. Appropriate communication and consultation processes must be used to communicate relevant risk information to officials and stakeholders to equip them to identify, assess, and respond to risks.

10. RISK MANAGEMENT STRUCTURE

The diagram below (Figure 1) provides the risk management structure, and thus an indication of people and formations that must be assigned risk management roles and responsibilities at a departmental level:

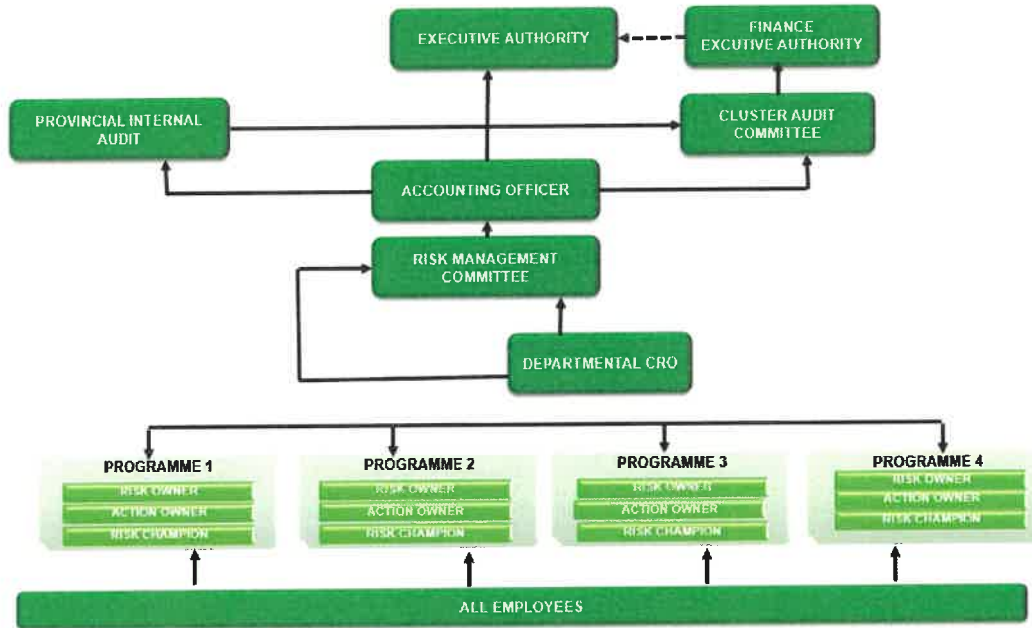


FIGURE 1: RISK MANAGEMENT STRUCTURE

- The Risk management function reports to the Head of the Department and Executive Authority for it to be integrated and effective in the Department.
- The Chief Risk Officer (CRO) will coordinate risk management processes, monitor risk registers, and table a report on the status of risk management in all Departmental Committee Meetings (EMC & DMC), Risk Management Committee Meetings (RMC), and Provincial Risk Management Forum.

11. RISK APPETITE STATEMENT

The Department is determined or willing to accept any risk that have a medium **residual risk** (Risk Rating below 14), and these risks will need to be reduced, monitored and periodically reviewed to ensure they remain acceptable.

2024/25 RISK MANAGEMENT STRATEGY

The Department evaluates its risks (inherent risk and residual risk) in terms of the following risk categories, as stated in the Public Sector Risk Management Framework and the Departmental Risk Management policy and other related documents:

RISK RATING	RISK MAGNITUDE	RISK APPETITE STATEMENT	
		RISK APPETITE CATEGORY	DESCRIPTOR
20 - 25	Maximum	Averse	Risks cannot be tolerated at their current levels, activities that bring risks must be ceased until appropriate controls to reduce risks are developed and implemented.
15 - 19	High	Cautious	Level of risks must be reduced unless costs associated with controls exceed associated benefits.
10 - 14	Medium	Cautious	Risks at this level must be reduced bearing the benefits exceed the cost of reduction.
5 - 9	Minimum	Minimalist	Risks at this level will be monitored and periodically reviewed to ensure they remain acceptable
1 - 4	Low	Minimalist	Risks at this level are accepted at their current levels, no treatment is required.

The Department makes resources available to treat and control its risk exposures to an acceptable level, whilst accepting and recognising that it is not possible to mitigate all risks to a desired residual level. Hence cost versus benefits analysis/theory is vital and considered during the process of designing and implementing controls to eliminate and mitigate the identified risks.

12. RISK PROFILES

Departmental risk registers will be compiled in a broad-based manner to cover all major types of risks, including strategic, financial management and reporting/financial statements, IT, OHS, compliance risks, and business unit risks beyond the control of management. Risk registers are regarded as dynamic documents that must be reviewed and/or updated at least quarterly or as circumstances dictate (not limited to media reports, incidents, business/activities change, fourth industrial revolution/technology, etc.).

The various types of risks that must be identified and included as part of the department-wide risks registers are as follows:



2024/25 RISK MANAGEMENT STRATEGY

- **Strategic Risks:** These are risks emanating from the strategic decisions made by the department based on its strategic goals and outcomes as they appear in the departmental strategic plan.
- **Operational Risks:** These are the risks that will be identified from the department's operations by determining threats and vulnerabilities introduced by employees, internal processes and systems, contractors, regulation, and other external events. Specific risks relating to Fraud and Ethics, ICT, as well as the impact of specific events such as a pandemic, and natural disasters affecting the department also have to be identified.
- **Project-specific risks:** These risks should be identified for projects undertaken by the department to highlight potential events that may hinder the correct completion and implementation of the project. Projects may include major changes in policies or the introduction of new requirements, construction and maintenance projects, or reconfigurations.

The development and maintenance of the risk registers should be a continuous process. This is usually achieved through facilitated workshops where management collectively agrees on the risk identification, assessment, and treatment plans.

13. RISK ASSESSMENT

The department employs a systematic process to quantify risks or the level of risk associated with a specific threat or event, this process will assist the department to prioritize the most important risks and allocate resources effectively. To conduct risk assessments, the department has adopted the following risk management approach/process:

The department has planned to perform various risk assessments at the departmental and business unit levels during the 2024/25 financial year.

The following steps will be considered when conducting the various risk assessment sessions to ensure that risks are identified and addressed appropriately and consistently:

- (a) Identifying risks that apply to the business unit, and their root causes.
- (b) Pre-determining the likelihood of the risk occurring and the impact it would have, should it occur, and thereby determining the inherent risk exposure related to each risk identified.
- (c) Pre-determining the controls that should be implemented to mitigate each of the identified risks i.e.: ideal controls.
- (d) The risks will then be rated inherently (pre-control level) in terms of Impact and Likelihood using best practice as the adopted risk matrix rating scale. This framework was also used to rate the effectiveness of the controls for managing the relevant risks.
- (e) Action plans identified in areas that management considered to be weak, as well as areas where management identified a need for new interventions will allow for efficiencies in their processes.



2024/25 RISK MANAGEMENT STRATEGY

The 2025/26 risk assessments will be conducted during the 2024/25 financial year. The following rating scales will be applied when conducting the risk assessments:

Likelihood Rating Scale:

Descriptor	Level	Definitions
Rare	1	The risk is conceivable but is only likely to occur in extreme circumstances.
Unlikely	2	The risk occurs infrequently within the next three years.
Moderate	3	There is an above-average chance that the risk will occur at least once in the next three years.
Likely	4	The event is likely to occur at least once within the next 12 months.
Common	5	The event is likely to occur more than once within the next 12 months.

Impact Rating Scale:

Descriptor	Level	Definitions
Insignificant	1	Negative outcomes or missed opportunities are likely to have a relatively negligible impact on the ability to meet its objectives.
Minor	2	Negative outcomes or missed opportunities are likely to have a relatively low impact on the ability to meet its objectives.
Moderate	3	Negative outcomes or missed opportunities are likely to have a relatively moderate impact on the ability to meet its objectives.
Major	4	Negative outcomes or missed opportunities that are that are of substantial importance on the ability to meet its objectives
Critical	5	Negative outcomes or missed opportunities that are of critical importance to the achievement of its objectives.

Control Effectiveness Rating Scale:

Descriptor	Effectiveness Rating	Definition
Very Good	5	The controls in place are working at an optimum level
Good	4	The controls in place are addressing the risks, but are not working at an optimum level
Satisfactory	3	The controls in place are working at an acceptable level, but more can be done to strengthen these controls
Weak	3	The controls in place need to be strengthened or new controls need to be implemented
Unsatisfactory	1	The controls in place are ineffective, and new controls need to be implemented

Risk Exposure

Risk rating	Risk magnitude	Response
20 - 25	Maximum	Unacceptable level of risk - Action must be taken immediately. (0-3 months)
15 - 19	High	Unacceptable level of risk, except under unique circumstances or conditions - Major level of control intervention required to achieve an acceptable level of residual risk (3-6 Months)
10 - 14	Medium	Unacceptable level of risk, except under unique circumstances or conditions - Moderate level of control intervention required to achieve an acceptable level of residual risk (6-12 Months)
5 - 9	Minimum	Mostly acceptable - Low level of control intervention required if any
1 - 4	Low	Acceptable-No action required

Risk assessment participants will be required to identify both the current controls the Department has in place to mitigate the inherent risks, and possible treatment plans to be implemented to improve the mitigation of the risk. Treatment plans will be identified in areas that management considers to be weak, as well as areas where management believes new intervention could allow for efficiencies in their processes. Lastly, treatment plans will be assigned to respective risk owners for their implementation and monitoring.

14. RISK RESPONSE AND TREATMENT

Risk response and risk treatment involve developing actions to reduce/mitigate the impact or likelihood of risks that are considered unacceptable during the risk evaluation process. Risk treatment entails identifying options for treating individual risks, assessing those options, preparing risk treatment plans, and monitoring their implementation. In some cases, a combination of options may be appropriate in treating risks.

The following response strategies will be considered by the department:

- Avoiding** the risk: this can be by developing a different strategy or terminating the activity that produces the risk;
- Treating** the risk: this can be through implementing deliberate actions to reduce the risk to an acceptable level such as improving internal controls;
- Transferring** the risk: this can be where a third party is requested to manage or absorb the risk, for example, contracting out services, establishing strategic partnerships, etc.;
- Accepting** the risk: in cases where cost and strategy considerations rule out alternative strategies, management may decide no deliberate actions will be taken;

The risk appetite/acceptable level will help us determine which risk management strategy to use to address a specific risk.



15. REVIEW & REVISION

Continual monitoring and reviewing of risk profiles and risk management literature is essential to maintain the effectiveness and appropriateness of the risk management process, this can be done through the following actions:

- Periodic (annual) review and evaluation of the whole risk management system (Risk Maturity assessment) is performed by assurance providers.
- Periodic (quarterly) review and evaluation of risk registers and effectiveness of risk mitigation plans is conducted every quarter.
- Identify emerging risks on an ongoing basis and evaluate them during quarterly risk monitoring and evaluation.

16. INFORMATION COMMUNICATION AND REPORTING

Effective and continuous monitoring is an essential part of risk management and therefore relevant. Stakeholders will receive reports about the current status of financial and operational data supported by adequate and appropriate systems. This will be within a time frame that enables employees to carry out their responsibilities properly.

The reason for communicating and documenting is for all employees to understand the risks and mitigation alternatives as well as the risk data to make effective choices within the constraints of available resources. Communication and documentation are both critical for managing risks. Information both positive and negative, when communicated throughout the organisation, will ensure that best practice is used and understood.

To ensure effective communication and reporting the department must ensure that:

- Risk management responsibilities are formally communicated to relevant people.
- Risk mitigation plans and associated due dates are discussed and agreed upon with relevant risk owners.
- Other than risk workshops, employees are provided with avenues/facilities to report and escalate risks.
- Risks are regularly (quarterly) reported to management and oversight structures such as the Audit Committee and Risk Management Committee.
- Reporting on the effectiveness of risk management in the annual report in terms of how the Department has accounted for the strategic risks.





2024/25 RISK MANAGEMENT STRATEGY

17. PERIOD OF REVIEW AND AMENDMENT

This strategy shall be reviewed annually and in the event of any need for amendments, such amendments shall be made and effected to the strategy.

18. RECOMMENDATION AND APPROVAL

The Risk Management Strategy is recommended by the Risk Management Committee and approved by the Head of Department.

DESIGNATION	NAME	SIGNATURE	DATE
RECOMMENDATION			
Risk Management Committee Chairperson	Mr. F. M. Mkhabela		27/03/2024
Approval			
Head Of Department	Mr. M.I. Kgantsi		28/03/24



ANNEXURE A: RISK MANAGEMENT IMPLEMENTATION PLAN 2024/25

Planned Action	Detailed Actions	Outputs	Due date and responsible person
Review and approval of the risk management policy for 2025/26	CRO to review and update the policy and submit it to the Risk Management Committee (RMC) to recommend to the Accounting Officer for approval.	Approved risk management policy	Chief Risk Officer 31 March 2025
Review and approval of the risk management strategy and plan for 2025/26	CRO to review and update the strategy and submit it to the Risk Management Committee (RMC) to recommend to the Accounting Officer for approval.	Approved risk management strategy	Chief Risk Officer 31 March 2025
Embedding of Risk Management	Publicize the policy on the intranet	Communicated risk management policy and strategy to all officials in the Department.	Chief Risk Officer 03 April 2024
Raising awareness and risk management training	Conduct training and awareness workshops for Risk Management	Attendance of Risk Management workshops and training sessions.	Chief Risk Officer 30 October 2024
Risk Management Committee Charter	Review existing RMC Charter Appoint members to the Risk Management Committee	Approved risk management committee charter Appointment letters	Chief Risk Officer 30 April 2024
Facilitate enterprise-wide risk assessments	Facilitate risk identification and assessment sessions. Analyse information and develop risk assessment reports.	Draft strategic, operational, fraud, and ICT risk registers.	Chief Risk Officer 30 October 2024



2024/25 DRAFT RISK MANAGEMENT STRATEGY

Planned Action	Detailed Actions	Outputs	Due date and responsible person
Approval of Strategic, Operational, ICT and Fraud risk registers for 2025/26	CRO to review and update the Strategic, Operational, ICT, Fraud risk registers and submit it to the Risk Management Committee (RMC) to recommend to the Accounting Officer for approval.	Approved Strategic, Operational, Fraud, and ICT risk registers.	Chief Risk Officer 31 March 2025
Quarterly Risk Monitoring and Identification of emerging risks	Review the status of the implementation of treatment plans Collect and validate portfolio of evidence for implemented plans. Re-evaluate the impact of treatment plans on the risks. Discuss emerging risks with employees and risk owners and report to the risk management committee.	Quarterly risk Management report Updated risk registers	Chief Risk Officer All Managers Quarterly
Convene risk management committee meetings	Convene Risk Management Committee meeting. Submit the RMC report to the audit committee.	Minutes of RMC meetings RMC Report	Chief Risk Officer, RMC Quarterly
Monitor and plan actions for reports of assurance providers	Compile audit action plans for Internal Audit and AGSA audit reports Compile action list for reports of Provincial Risk Management	Audit action plans Quarterly Risk Management Report	Chief Risk Officer Ongoing

