

RISK MANAGEMENT STRATEGY

2020/21

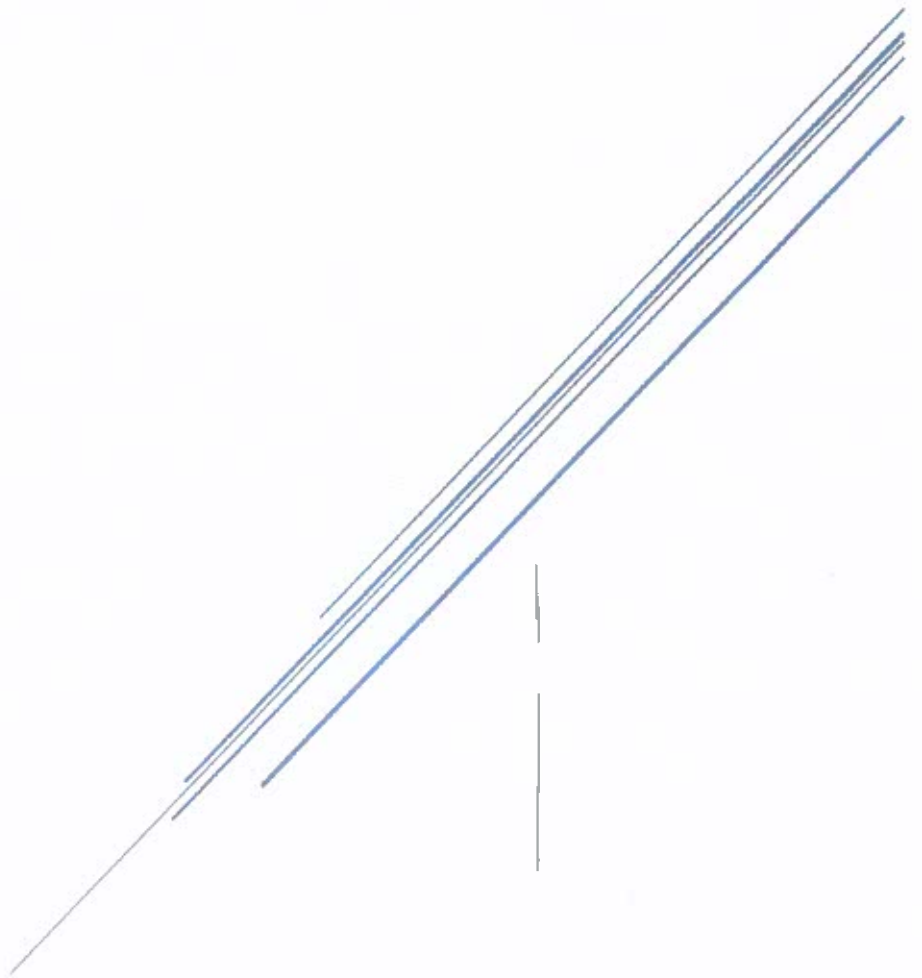


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1 The purpose of the strategy

The purpose of this strategy is to facilitate adherence to section 8 par (1)(2) of the public sector risk management framework which, requires the following in respect of a risk management strategy:

- (a) a plan of action to improve the Institution's risk management maturity;
- (b) a focus on the prevention of fraud and corruption;
- (c) the Institution's risk management architecture and reporting lines;
- (d) a description of the risk management modality;
- (e) user guidelines; and details of review and assurance of the risk management process.

The strategy further seeks to provide a clear guide for the implementation of risk management activities and the risk management policy of the municipality.

2 Objectives of the strategy

- 2.1 To provide and maintain a working environment where everyone is following sound risk management practices and is held accountable for achieving results;
- 2.2 To provide a framework on which employees must utilise to implement risk management;
- 2.3 To provide facilities and create a conducive working environment in ensuring that everyone has the capacity and resources to carry out his or her risk management responsibilities;
- 2.4 To ensure that risk management activities are fully integrated into the planning, monitoring and reporting processes and into the daily management of municipal activities.

3 The need for the strategy

The need to manage risk systematically applies to all departments and to all functions and activities within the municipality. An effective risk management strategy helps the municipality to meet its objectives by ensuring that everyone has a clear understanding of:

- The objectives of the municipality
- Factors that could impact on the municipality's ability to meet those objectives, the actions necessary to ensure objectives are achieved.

This risk management strategy intends to;

- (a) Improve accountability by ensuring that risks are explicitly state and understood by all parties, that the management of risk is monitored and reported on, and that action is taken based on the results;
- (b) Focus on planning, to deal with factors that may impact on the objectives of the municipality and provide an early warning signal;
- (c) Ensure opportunities are not missed and surprise costs don't arise.

4 Definition of risk management

Risk Management is a systematic and formalised process to identify, assess, manage and monitor risks.

5 Risk Management Environment

The risk management environment of the municipality entails an internal and an external environment. This is thus an illustration that, there are both internal and external factors and stakeholders influencing risk management in the municipality.

Internal Environment:

The internal Environment consists of:

Council, Management and employees

Business Processes and Policies

Municipal Infrastructure

External Environment:

General Public

External Legislators or law makers

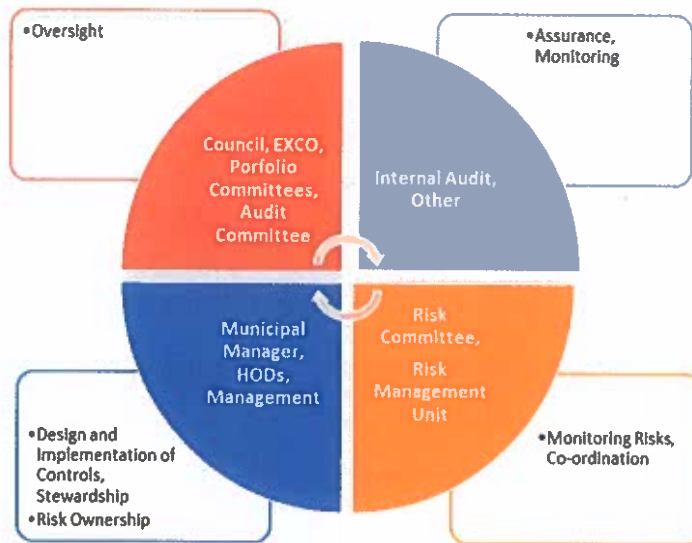
Markets and inflation

Industries

Technology

Natural disasters

6 The Risk Management Architecture



7 Risk Management process:

7.1 Objective Setting (IDP and SDBIP) (strategic and related objectives)

The process of identifying risks shall begin with the identification of the municipality's strategic and operational objectives. The risk management unit shall use the Service Delivery and Budget Implementation plan (SDBIP) for the relevant financial year, to identify the **strategic objectives** which management intends to achieve within that financial year.

The risk management unit will in co-operation with the risk owners, develop **related objectives** according to the following objective categories: Operational, Reporting and Compliance

7.2 Identification of risk exposed areas/ risk areas and Inherent risk;

The risk division should identify the area within the business process/ unit, to which the objective relates and, identify the inherent risks in the particular area. (The inherent risk being, the risk that naturally exists in a business process, without considering internal controls.)

7.3 Assessing the likelihood of risks and the assessment methodology;

The risk management unit should further assess each risk to determine the probability of such risk occurring or materializing (Likelihood). The likelihood shall be determined for both inherent and residual risks. The municipality will use the quantitative method to

assess the likelihood of risk and this is outlined in detail in **Table 3**. Refer to the relevant table for details on this matter.

7.4 Assessing the impact of the risk and the assessment methodology;

In order to obtain an understanding of the significance of the risk, for the purpose of prioritisations, the risk management unit must assess the impact that a risk might have on the institution, the impact shall be assessed for both the inherent and residual risks. The municipality will for the purpose of the implementation of its policy, make use of the quantitative method to assess the impact of risks. The methodology is outlined in detail in **Table 4**.

7.5 Assessing the Velocity of risks and the methodology;

The Chief Risk Officer may for the purpose of further information, assess the velocity of risks identified. The velocity gives us the speed at which the organisation will feel or start to suffer from the consequences of risks after they have materialised. The velocity may be assessed at the discretion of the Chief Risk Officer, and the method to be used is outlined in **Table 2**.

7.6 Assessing the Vulnerability of risk and the methodology;

The assessment of vulnerability looks into factors which can give an indication as to how susceptible to risk the municipality is. This is a helpful mechanism for additional information on risks. The Chief Risk Officer is not obliged to use this method of assessment but, may for the purpose of additional information perform the assessment. The municipality will use the quantitative method for assessing the velocity of risks. The method of assessing is outlined in **Table 1**.

7.7 The overall risk exposure /assessment and methodology;

The overall risk exposure of the municipality needs to be calculated subsequent to assessing the likelihood and impact of risks. The overall risk exposure shall be the likelihood multiplied by the impact or, the total vulnerability multiplied by the impact. The municipality shall use the quantitative method to determine the total risk exposure of the municipality. The total risk shall be measured and categorised according to high, medium and low. **Table 5** contains the risk exposure levels and an indication of what level of risk is considered as high, medium or low.

7.8 Identification of risk factors and control considerations;

The risk management unit shall assess using techniques, whether there are any mechanisms in place by management, to address inherent risks identified. Those controls shall be considered against the risks in order to determine the extent to which such controls can address risks. If there are no controls in place or there are shortcomings in

the existing controls to adequately address risks, such are considered as risk factors. These are factors that gives rise and fuels the risks. This is an important step and shall be performed after the inherent risks have been identified. The risk factors must be documented in the risk register after they have been identified by the risk management unit.

Considerations about controls: An internal Control is a set of procedures documented and implemented by management, in response to risks thus, to provide reasonable assurance that set objective are achieved. The risk management unit will consider the design of the controls for the purpose of determining whether internal controls are adequate to address the risks identified. Internal Controls developed by management should have a preventative, detective and corrective nature.

An internal control should be documented, approved and implemented for it to be considered as a control to mitigate a risk. If this criterion is not achieved, the risk management unit will consider the control as non-existent.

7.9 The Management action / response and Action plans;

After risks have been identified and assessed, management should decide on the basis of the risk appetite and tolerance of the municipality, what actions are appropriate to take in respect of each risk. The following are options management should use in respect of the residual risks identified:

Option	Description
Avoid	Management choosing not to take any action that will give rise to the risk.
Reduce	Management implement measures to reduce the Impact or likelihood of the risk.
Share	Management decides to transfer some of the risk to other parties.
Accept	Management decides not to take any action towards the risk.

Management should develop an action plan in a format or using a template that shall be provided by the risk management section, to address residual risks rating as high and medium (Prioritising high risks as per this strategy). The action plan should clearly indicate the internal control(s) that management intends to implement in order to mitigate the risks to an acceptable level. The action plan must address the risk factors identified as they are the reason for the residual risk.

The action plan must contain the following information;

- (a) Risk Number, and residual risk
- (b) Risk Levels (Likelihood, Impact and risk value)
- (c) Risk Factor
- (d) Planned action/ Internal controls to be developed
- (e) Anticipated date of completion and implementation
- (f) Responsible person
- (g) Status

The action plan shall be a separate document and do not have to be included in the risk register. The action plan should be monitored and the risk management unit will follow up on the implementation of internal controls on the due dates indicated on the action plans. The risk owners shall be responsible to ensure that the risk division is provided with updates on progress made on action plans (Signed updated action plans should be submitted to the risk management unit).

7.10 The Risk Register and updating thereof;

The risk management department must ensure that the outcome of the risk assessment is documented in the risk register. The risk register does not have to include actions by management to implement controls for the purpose of mitigating residual risks as this will be separately monitored on the action plan. The register must at least contain the following fields:

- KPI No, KPA, Strategy/ Objective, Risk, Risk Number, Risk Factor, Risk Rating (Likelihood, Impact, Velocity, Vulnerability) Existing Management Control, Nature of control, Total risk exposure, Management action (Avoid, Transfer, Mitigate and Accept) and Risk Category

7.11 Categorisation of risks

In order to integrate risk management into other management processes, the terminology should easily be understandable by sectional manager. By developing some common municipality risk language program managers can talk with individuals in terms that everybody understands.

An important step in developing a common municipality risk language means to classify risks identified in various categories.

The minimum categories to be used by the municipality are as follows;

Risk Category	Description
Security	A security risk is any event that could result in the compromise of organizational assets i.e. the unauthorized use, loss, damage, disclosure or modification of organizational assets for the profit, personal interest or political interests of individuals, groups or other entities constitutes a compromise of the asset, and includes the risk of harm to people.
Compliance	Compliance refers to adhering with the Municipality's policies, procedures, laws and regulations.
Financial	The risk that a firm will be unable to meet its financial obligations. This risk is primarily a function of the relative amount of debt that the municipality uses to finance its assets. A higher proportion of debt increases the likelihood that at some point the firm will be unable to make the required interest and principal payments.
Theft/Fraud/ Corruption	Fraud essentially involves using deception to dishonestly make a personal gain for oneself and/or create a loss for another. Although definitions vary, most are based around these general themes. The term 'fraud' commonly includes activities such as theft, corruption, conspiracy, embezzlement, money laundering, bribery and extortion.
Technological	Risk related to information technology. While information has long been appreciated as a valuable and important asset, the rise of the knowledge economy and the Digital Revolution has led to organizations becoming increasingly dependent on information, information processing and especially IT.
Human Resource	The potential loss resulting from management failure or lack of awareness and compliance with human resource policies.
Governance	Establishment of policies, and continuous monitoring of their proper implementation, by the members of the governing body of an organization. It includes the mechanisms required to balance the powers of the members (with the associated accountability), and their primary duty of enhancing the prosperity and viability of the organization. See also corporate governance.
Service Delivery	Potential disruption in the distribution of basic resources citizens depend on like water, electricity, sanitation infrastructure, land, and housing.
Environmental	Actual or potential threat of adverse effects on living organisms and environment by effluents, emissions, wastes, resource depletion, etc., arising out of an organization's activities.
Health & Safety	the potential harm or adverse health effect that the hazard may cause, the number of times persons are exposed and the number of persons exposed.
Political	refers to the complications businesses and governments may face as a result of what are commonly referred to as political decisions—or "any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives.

8 Timing of risk assessment

A thorough risk assessment will be conducted once a year, during the 4th quarter of the year preceding the year for which the assessment is done, by the risk management division together with all relevant stakeholders. The ongoing assessment of risks shall be performed by the risk management division upon the following:

- (a) As soon as management have submitted in writing, additional risks they may have identified;
- (b) As soon as there was a change in business processes of the municipality or additional strategic objectives were developed (or the IDP or SDBIP were amended):
- (c) The introduction of new projects:
- (d) As soon as a control developed to address an identified risk(s) has been implemented and the action plan updated as such.

9 Vacancy of the Chief Risk Officer, non-existence of a risk committee

- 9.1 When the position of the chief risk officer becomes vacant, the municipal manager may designate the responsibilities for risk management to any person he/she may so deem suitable to carry out such responsibilities until such time as the position is filled.
- 9.2 The Internal Audit unit may assist but, only as far as it will not compromise their institutional independence. The internal audit may assume the role for risk management by means of guiding or facilitating the implementation of risk management but, may not take responsibility for risk management.
- 9.3 The audit committee may assume the role of the risk committee, and advise the accounting officer on risk management only, provided that such is provided for in the audit committee charter, in instances the municipality does not have or, has not established a risk management committee.

10 Communication of Risk management and related documentation to Municipal personnel

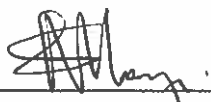
- 10.1 The Chief Risk Officer should liaise with the HR Manager to ensure that newly appointed staff are inducted/ workshopped on the risk management and related policies and strategies;
- 10.2 Quarterly training sessions to risk owners;
- 10.3 Bi-Annual training to all the staff; and
- 10.4 All staff shall receive a copy of the risk management documentation via electronic mail or may access such policies on the Municipal intranet and Website.

11 Approach to addressing Residual Risks

For the purpose of effective risk management, the risk management unit will follow up and put most of the focus on all high risks, followed by medium risks. Low risks will be reviewed once in six months. Medium risks will be considered once in 2 months. High risks will be monitored continuously and frequently to ensure that they are brought to acceptable risk levels.

12 Approval and review

- 12.1 The risk management strategy should be reviewed every time the policy is reviewed and amended accordingly.
- 12.2 It is recommended that the policy be reviewed or amended at least every year but, it may be amended or reviewed with the strategy whenever a need to review or amend arise.
- 12.3 The review during the year may however, only be conducted due to changes in legislation, or if the council requires such a change to be done.
- 12.4 The strategy shall be approved by the Municipal Manager and, only after it has been recommended for approval by the Risk Management Committee.



Acting Municipal Manager

14. December. 2020

Date

TABLES

Table 1: Vulnerability Analysis

Rating	Vulnerability	Backing Scenario
5	Very High	<p>(a) There is no recovery or contingency plan in place;</p> <p>(b) Responsibility and ownership for risk has not been assigned/delegated;</p> <p>(c) Plans to address risks are not in place;</p> <p>(d) The municipality does not have the financial capability to address the risks; (Significant budgeted losses and negative cash flow)</p> <p>(e) No internal controls exists to address key findings raised through audits by both the Internal Audit and external auditors:</p>
4	High	<p>(a) The municipality has developed recovery and contingency plans but, these have not been implemented;</p> <p>(b) Internal control procedures have been developed but, not implemented;</p> <p>(c) There is an action plan to address key findings but, it is not implemented and monitored;</p> <p>(d) Plans to address risks have only been developed but, have not been implemented and monitored;</p> <p>(e) Responsibility and ownership for risk has not formally been assigned/delegated;</p> <p>(f) The municipality has financial resources only for the most essential matters;</p>
3	Medium	<p>(a) The municipality has developed recovery and contingency plans but, they have only been partially implemented;</p> <p>(b) Plans to address risks are developed and, are functioning now and then;</p> <p>(c) The municipality has financial resources to address basic matters;</p> <p>(d) Responsibility for risk has been allocated/delegated but not controlled and monitored;</p> <p>(e) The action plan to address key audit findings has been implanted partially, and is not monitored;</p>

		(f) Internal Controls to address risks have only been partially implemented and are not adequate;
2	Low	<p>(a) The municipality has developed and implemented recovery and contingency plans but, these are not monitored on a regular basis;</p> <p>(b) The action plan to address key audit findings has been developed and implemented but only partially monitored;</p> <p>(c) The municipality has just enough financial resources to address a reasonable amount of risks;</p> <p>(d) The responsibility for risk has been allocated but, its monitored only now and then;</p> <p>(e) Adequate Internal Controls have been implemented but, they are not always effective</p>
1	Very Low	<p>(a) The municipality has developed and implemented recovery and contingency plans, and these are monitored on a regular basis;</p> <p>(b) Plans to address risks have been developed, are implemented and monitored regularly;</p> <p>(c) The municipality has sufficient financial resources to address risks;</p> <p>(d) The municipality has developed and effectively implemented plans to address key issues raised by both Internal and External Audit. Plans are monitored on a regular basis;</p> <p>(e) Responsibility for risk has been appropriately allocated and delegated, and monitored on a regular basis;</p>

Table 2: Velocity Analysis

Rating	Velocity	Description
5	Very High	The risk impacts the municipality immediately, between 1- 3 days
4	High	The risk impact the municipality, between 31 – 60 days
3	Medium	The risk impacts the organisation between 60 – 180 days
2	Low	The risk impacts the organisation between 180 – 360 days
1	Very Low	The risk almost never impacts the organisation

Table 3: Assessing the Likelihood

This table will give us the basis for measuring the extent of probability of occurrence of a risk in a particular financial year. A higher probability is translated as a better chance of the risk occurring, while a lower probability almost signifies no chances of the risk occurring.

Rating	Likelihood	Probability of occurrence
5	Almost Certain	80 -100% chances exist that the risk will occur during the financial year.
4	Likely	51 – 79% chances of occurrence of the risk within 12 months
3	Moderate	41 -50% chances of occurrence of the risk within 12 months
2	Unlikely	21 – 40% Chances of the risk occurring within 12 months
1	Rare	1 – 20% Chances of the risk occurring within 12 months

Table 4: Impact Analysis

Rating	Impact	Description
5	Critical	<ul style="list-style-type: none"> (a) Risk will result in widespread and lengthy disruption in continuity of service delivery; (b) Significant environmental damage and contamination; (c) Significant financial losses between 6%<of total budgeted revenue; (d) Significant litigations and fines which may result in material liabilities that may compromise the financial position of the municipality; (e) Prolonged negative media coverage compromising the municipality's integrity; (f) Public unrest resulting into loss and sever damage of strategic assets critical for service delivery; (g) Significant non-compliance reportable to regulatory bodies; (h) Significant injuries or fatalities to employees or members of the community; (i) Municipal Manager and Senior Management leaving their positions; (j) Frequent interventions by provincial and national government.
4	Major	<ul style="list-style-type: none"> (a) Risk will result in periodic disruption in the continuity of service delivery;

		<ul style="list-style-type: none"> (b) Major financial losses between 3-5% of total budgeted revenue; (c) Major environmental damage and contamination (d) Material litigations and fines which may result in liabilities that may compromise the financial position of the municipality; (e) Negative Media coverage that may compromise the municipality's integrity; (f) Threats of public unrest and refusal to pay for services; (g) Periodic interventions by provincial and national government; (h) Middle management in critical positions resigning; (i) Major injuries or fatalities to employees or members of the community;
3	Moderate	<ul style="list-style-type: none"> (a) Manageable negative media coverage; (b) Reparable damage or contamination to the environment; (c) Highlights of dissatisfaction with municipal services in public meetings (IDP and budget consultations, General Public meetings by councillors); (d) Non-compliance reportable only to the municipal manager or the executive mayor or council; (e) Notable staff turnover on officer level and supervisory positions; (f) Financial losses of an amount between 1 – 2% of budgeted revenue; (g) Minimal interventions by Provincial and National government; (h) Minor injuries or fatalities to employees or members of the community; (i) Immaterial litigations and fines;
2	Minor	<ul style="list-style-type: none"> (a) An insignificant amount of letters of complaints by residents highlighting dissatisfaction with services rendered by the municipality; (b) Non-compliance to internal procedures reportable to the accounting officer; (c) Insignificant amount of resignations, occurring at least once a year; (d) Immaterial or manageable financial losses; (e) Little or no contamination or damage to the environment;

		(f) Little or no incidents of injuries or fatalities to employees or members of the community; (g) No negative media coverage; (h) No complaints from the community or residents.
1	Incidental	(a) Risks will result in little and manageable disruptions, may not have any impact on the delivery of services; (b) Risks will result into minimum or no financial loss at all; (c) Non-compliance to internal processes reportable to directors; (d) Little or no resignations by staff during the year; (e) Little or no interventions from Provincial and National government; (f) No accidents or fatalities to employee or members of the community; (g) No negative medical coverage; (h) No complaint or threats from the community or residents; (i) No contamination or damage to the environment;

Table 5: Overall risk Matrix:

This table provides information on the overall level of a risk, whether inherent or residual and prescribes the classification of the risk. The action taken by management, depending on the outcome of the overall assessment of the risk, will be determined by the attitude of the institution towards risks.

Impact	Critical	5	10	15	20	25
	Major	4	8	12	16	20
	Moderate	3	6	9	12	15
	Minor	2	4	6	8	10
	Incidental	1	2	3	4	5
		Rare	Unlikely	Moderate	Likely	High
	Likelihood					
1 – 4 Low Risk		5 – 12 Medium Risk		13- 25 High Risk		

Table 6: Definitions

DEFINITIONS	
Risk	Any threat or event that has a reasonable chance of occurrence in the future, which could undermine the institutions pursuit of its goals and objectives. Risk Manifest as negative impacts on goals and objectives or as missed opportunities to enhance institutional performance. Stakeholders expect municipal institutions to anticipate and manage risks in order to eliminate waste and inefficiency, reduce shocks and crises and to continuously improve capacity for delivering on their institutional mandates.
Risk Identification	The process concerned with identifying events that produce risks that threaten the achievement of objectives.
Risk Analysis	A process that involves identifying the most probable threats to the municipality and analysing the related vulnerability of the municipality to threats. This includes risk assessment, risk characteristics, risk communication, risk management, and policy relating to risk.
Risk Assessment	The process concerned with determining the magnitude of risk exposure by assessing the likelihood of the risk materialising and the impact that it would have on the achievement of objectives.
Risk Management	Risk management is a continuous, proactive and systematic process, effected by a municipality's executive authority, municipal manager, management and other personnel, applied in a strategic planning and across the municipality, designed to identify potential events that may affect the municipality, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of objectives.
Enterprise Risk Management	Enterprise risk management (ERM) is the application of risk management throughout the municipality rather than only in selected business areas or disciplines
Inherent risk	The probability of risk occurring or existing in the municipality in the absence of any existing action to control or modify the circumstances.
Residual risk	The risk that remains after all efforts have been made to mitigate or to eliminate the risk that the municipality is exposed to.
Strategic risk	Any potential obstacles that may impact on the ability of the municipality to achieve its strategic objectives

Risk Response	The process concerned with determining how the municipality will mitigate the risks it is confronted with, through consideration of alternatives such as risk avoidance, reduction, risk sharing and acceptance.
Monitor	The process of monitoring and assessing the presence and functioning of the various components over time.