RISK MANAGEMENT STRATEGY

2022/23

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Department	**Risk Management**
Document Owner	**Chief Risk Officer**

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.

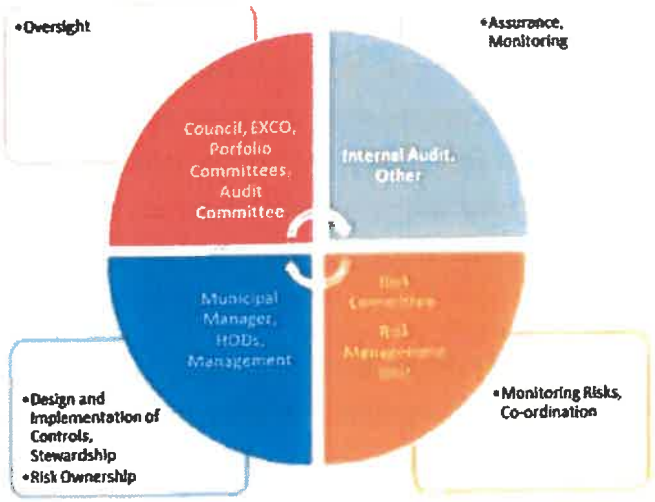
3 The need for the strategy

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;

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

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.

	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.

TABLES

Table 1: Vulnerability Analysis

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

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% changes 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	(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 medical 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	(a) Risk will result in periodic disruption in the continuity of service delivery;

		(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**