



MOQHAKA LOCAL MUNICIPALITY

RISK MANAGEMENT STRATEGY

Table of Contents

1. INTRODUCTION5

2. PURPOSE6

3. OBJECTIVES6

4. RISK MANAGEMENT PROCESS6

5. RISK REPORTING21

6. RISK MANAGEMENT ROLES AND RESPONSIBILITIES22

7. DISCLOSURE29

8. RISK MANAGEMENT STRATEGY ADMINISTRATION30

MLM RISK MANAGEMENT STRATEGY

DEFINITION OF TERMS

Accounting Officer: The Municipal Manager.

Audit and Performance Committee: An independent committee constituted to review the control, governance and risk management within Moqhaka Local Municipality (MLM), established in terms of section 166 of the MFMA.

Chief Risk Officer: A senior official who is the head of the Risk Management Unit.

Council: In relation to a municipality, the Municipal Council as referred to in section 18 of the Municipal Structures Act, and as defined in section 1 of the MFMA.

Control: A measure put in place by Management to give reasonable, but not absolute assurance, of the achievement of the MLM's performance objectives.

Impact: The effect or consequence of the risk.

Inherent Risk: The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.

Integrated Development Plan (IDP): A single, inclusive and strategic plan aimed at the integrated development and management of a municipality, as envisaged in Chapter 5 of the Municipal Systems Act.

King IV: The King Code of Corporate Governance for South Africa, 2016 for corporate governance best practice (specifically "Part 6.2: Supplement for municipalities).

Likelihood: The probability of the risk to materialise.

MFMA: Municipal Finance Management Act (Act No. 56 of 2003).

MLM: Moqhaka Local Municipality.

Operational Risk: Risks that affect the achievement of the SDBIP, mainly from inadequate or failed internal processes, actions of staff, loss of key personnel, failure of IT systems, failure of equipment, the actions of regulatory authorities, customers, suppliers and the public, as well as other external events that impact on the objectives.

Other Official: An official other than the Municipal Manager, Management, Chief Risk Officer and her staff.

Residual Risk: The exposure remaining after the mitigating effects of management intervention(s) to control such exposure i.e. the remaining risk after Management has put in place measures to control the inherent risk.

Risk: The effect of uncertainty on the achievement of the Municipality's IDP and SDBIP caused by the presence of risk factors; and/or the failure to optimize opportunities to enhance the achievement of the IDP and SDBIP.

MLM RISK MANAGEMENT STRATEGY

Risk Appetite: The level of risk which is established through a rigorous analytical process (including consideration of cost vs benefit) that the Municipality is prepared and able to accept in furtherance of its objectives.

Risk Champion: A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.

Risk Factor: Any threat or event which creates or has the potential to create risk.

Risk Management: A systematic, coordinated set of activities and methods used to direct an organization and to control risks, including a set of principles, a framework and a process.

Risk Management Committee: A Committee appointed by the Municipal Manager to apply specialist skills, knowledge and experience and assist him to dispose of his responsibilities for all matters concerned with the establishment, maintenance and functioning of the municipality's system of risk management, especially the management of priority risks.

Risk Management Unit: A business unit which reports to and supports the Chief Risk Officer to fulfil his/her functions.

Risk Owner: The person accountable for managing a particular risk linked to the objective(s) he/she is responsible for.

Risk Tolerance: The amount of risk the municipality is capable of bearing (as opposed to the amount of risk it is willing to bear).

Service Delivery and Budget Implementation Plan (SDBIP): A detailed plan approved by the mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget.

Strategic Risk: Risks connected with strategy selection, implementation or revision which affects the achievement of the IDP. Strategic risks occur both from poor business decisions as well as the failure to effectively implement decisions.

MLM RISK MANAGEMENT STRATEGY

1. INTRODUCTION

The implementation of Moqhaka Local Municipality's Risk Management Policy is guided by this strategy.

The strategy includes:

- 1.1 A plan of action to improve the Municipality's risk management maturity;
- 1.2 The Municipality's risk management architecture and reporting lines; and
- 1.3 Roles and responsibilities for risk management.

Enterprise Risk Management (ERM) is a systematic, co-ordinated and inclusive process which uses the Municipality's strategy and objectives as the focal point to manage the range of risks and optimisation of opportunities to enhance the achievement of the strategy and objectives. It is effected by the Municipality's Council, management and other personnel, applied in strategy setting and across the organisation, designed to identify potential events that may affect the municipality, manage risk to be within its risk appetite, provide reasonable assurance regarding the achievement of the municipality's strategic objectives and Flagship Programmes.

ERM includes the following fundamental concepts:

- a) A process, ongoing and flowing through the Municipality;
 - o ERM is not static, but rather a continuous or iterative interplay of actions that permeate the Municipality. These actions are pervasive and inherent in the way management runs the business.
- b) Effected by employees at every level of the Municipality;
 - o It is accomplished by the employees of the municipality, by what they do and say.
- c) Applied in strategy setting;
 - o ERM is applied in strategy setting, in which management considers risks relative to alternative strategies.
- d) Applied across the municipality;
 - o It is applied at every level and unit, and therefore the ERM scope includes the entire activities of the municipality.
- e) Provides reasonable assurance
 - o A well-designed and operated ERM process can provide management and Council reasonable assurance regarding achievement of the municipality's objectives. It can be expected to provide reasonable assurance of achieving objectives relating to the reliability of reporting, and compliance with laws and regulations. Achievement of those categories of objectives is however within the municipality's control and depends on how well the municipality's related activities are performed.

ERM however cannot prevent bad judgments or decisions, or external events that can cause the municipality to fail in achieving the set objectives and flagship programmes.

This Strategy is aligned to the International Organization for Standardization (ISO 31000:2018), Committee of Sponsoring Organisations of the Tread way Commission (COSO) Enterprise Risk Management Integrated Framework as well as taking into account the principles of the National Treasury Local Government Risk Management Framework and the King IV Report on Corporate Governance.

MLM RISK MANAGEMENT STRATEGY

The legal mandate for risk management emanates from sections 62(1) (c) (i) and 95(c) (i) of the Municipal Finance Management Act, which states that “Accounting Officers are to ensure that their municipalities and municipal entities have and maintain effective, efficient and transparent systems of risk management”.

2. PURPOSE

The purpose of the Risk Management Strategy is to manage risk systematically of which will apply to all directorates and to all functions and activities within the Municipality.

An effective risk management strategy will assist the Municipality to meet its strategic and operational objectives by ensuring that every employee 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 met.

An effective Risk Management Strategy can:

- a) Improve accountability by ensuring that risks are explicitly stated and understood by all parties, that the management of risks 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.

3. OBJECTIVES

The objectives of Risk Management Strategy are as follows:

- a) To provide and maintain a working environment where everyone is following sound risk management practices and is held accountable for achieving results;
- b) To provide with the framework on which the employees will utilize to implement risk management;
- c) To provide the 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;
- d) To ensure that risk management activities are fully integrated into the planning, monitoring and reporting processes and into the daily management of program activities.

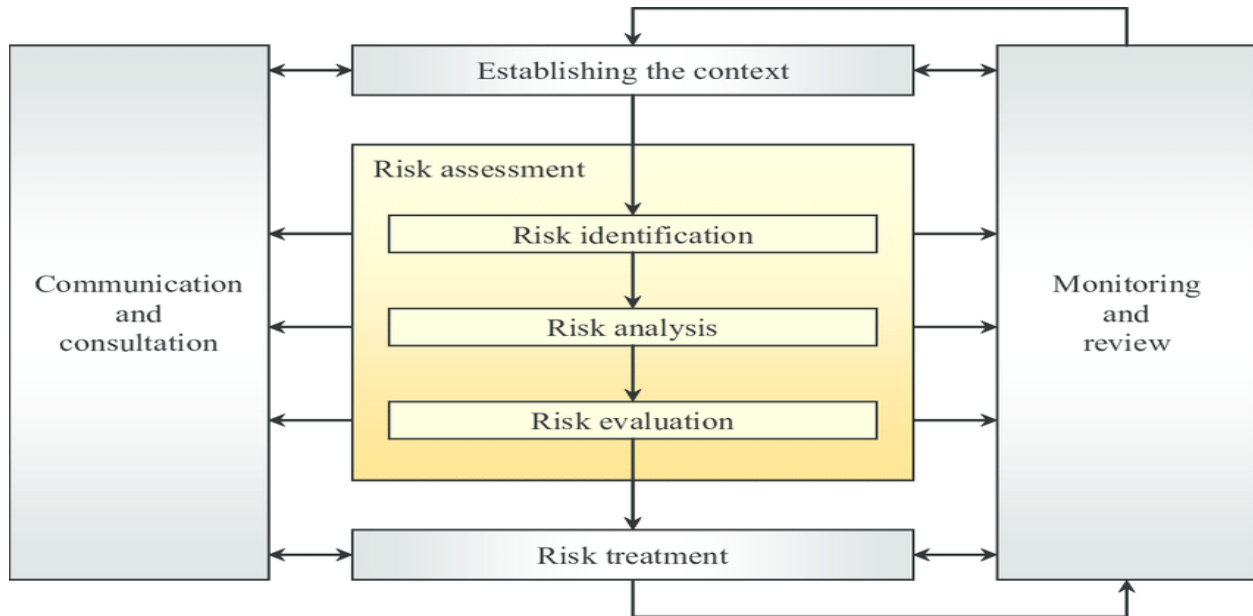
4. RISK MANAGEMENT PROCESS

4.1 The process of managing risk is a structured approach for incorporating risk management into the daily, broader management process. Risk management is more than an exercise of risk avoidance. It is as much about identifying opportunities as avoiding or mitigating losses.

4.2 Risk management is an ongoing process at every level, and consists of five interrelated components as per Enterprise Risk Management ISO 31000:2018, namely:

MLM RISK MANAGEMENT STRATEGY

- (i) Establishing the Context;
- (ii) Risk Assessment
- (iii) Risk Treatment
- (iv) Monitoring and Review
- (v) Communication and Consultation



4.2.1 Establishing context:

The process of risk management starts by defining the objectives that the municipality wants to achieve, how it intends to achieve these objectives and which factors (*both internal and external*) may get in the way of achieving those objectives. The City's objectives as captured on the Integrated Development Plan as follows:

- a) Spatial Transformation:** Implement and integrated and targeted strategy that transforms the spatial and economic legacy of Mangaung.
- b) Economic Growth:** Boost economic development by strengthening organisational performance.
- c) Service Delivery Improvement:** Strengthen service delivery as a priority for economic growth.
- d) Financial Health Improvement:** Implement a financial recovery plan that rebuilds financial Strength.
- e) Organisational Strength:** Strengthen the organisation – the heart of it all.

Internal context:

The Municipality has little or no control over its external context, its internal context is that over which it has direct control and influence. Controlling and influencing the internal context enables the Municipality to achieve its objectives. Internally, the risk management process should be aligned with the municipality's culture, processes, structure and strategy. The following are the internal stakeholders in risk management:

MLM RISK MANAGEMENT STRATEGY

- Political Leadership;
- Executive Management Team; and Employees.

External context:

The external context is the external environment in which the Municipality seeks to achieve its objectives. Understanding the external context is important in order to ensure that the objectives and concerns of external stakeholders are considered when developing risk criteria. It is based on the municipal-wide context, but with specific details of legal and regulatory requirements, stakeholder perceptions and other aspects of risks specific to the scope of the risk management process.

The external context can include, but is not limited to:

- 1) The social and cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment, whether international, national, regional or local;
- 2) Key drivers and trends having impact on the objectives of the Municipality; and
- 3) Relationships with, perceptions and values of external stakeholders.

Stakeholders may include the following but no limited to:

- Community;
- Councillors;
- Consumers;
- Business;
- National & Provincial Government;
- Employee organizations (unions); and
- Professional bodies.

4.2.2 Risk Assessment:

Risk Assessment is a structured process that:

- 1) Identifies how the Municipality's objectives could be affected by risks (Risk Identification).
- 2) Analyses the risk in terms of its likelihood and consequences, along with what type of risk it is (Risk Analysis).
- 3) Describes the priority that should be assigned to each risk (Risk Evaluation).

4.2.2.1 Risk Identification

Risk identification is a deliberate and systematic effort to identify and document the Municipality's key risks. The objective of risk identification is to understand what is at risk within the context of the Municipality's explicit and implicit objectives and to generate a comprehensive inventory of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

The Municipality adopts a rigorous and ongoing process of risk identification that also includes mechanisms to identify new and emerging risks timeously. The Municipality's risk identification process covers all risks, regardless of whether or not such risks are within the direct control of the Municipality. Risk identification is inclusive, as it does not overly rely on the inputs of a few senior officials but also draws as much as possible on unbiased independent sources, including the perspectives of important stakeholders.

MLM RISK MANAGEMENT STRATEGY

Risk workshops and interviews are useful for identifying, filtering and screening risks but it is important that these judgement based techniques be supplemented by more robust and sophisticated methods where possible, including quantitative techniques. Risk identification should be strengthened by supplementing Management's perceptions of risks, inter alia, with:

- Review of external and internal audit reports;
- Financial analyses;
- Historic data analyses;
- Actual loss data;
- Interrogation of trends in key performance indicators;
- Benchmarking against peer group or quasi peer group;
- Market and sector information;
- Scenario analyses; and
- Forecasting and stress testing.

Focus points of risk identification

To ensure comprehensiveness of risk identification the Municipality will identify risk factors through considering both internal and external factors, through appropriate processes of:

Strategic risk identification to identify risks emanating from the strategic choices made by the Municipality, specifically with regard to whether such choices weaken or strengthen the Municipality's ability to execute its Constitutional mandate:

- a) Strategic risk identification precedes the finalisation of strategic choices to ensure that potential risk issues are factored into the decision-making process for selecting the strategic options;
- b) Risks inherent to the selected strategic choices are documented, assessed and managed through the normal functioning of the system of risk management; and
- c) Strategic risks are formally reviewed concurrently with changes in strategy, or at least once a year to consider new and emerging risks.

Operational risk identification to identify risks concerned with the Municipality's operations:

- a) Operational risk identification seeks to establish vulnerabilities introduced by employees, internal processes and systems, contractors, regulatory authorities and external events; and
- b) Operational risk identification is an embedded continuous process to identify new and emerging risks and consider shifts in known risks through mechanisms such as management and committee meetings, environmental scanning, process reviews and the like.

Fraud risk identification to identify risks relating to the municipality's vulnerabilities to both internal and external fraud. It must be understood that fraud is only one component of the municipality's operational risk.

Project risk identification to identify risks inherent to particular projects:

- a) Project risks are identified for all major projects, covering the whole lifecycle; and
- b) For long term projects, the project risk register is reviewed at least once a year to identify new and emerging risks.

In identifying a risk it must be understood that a risk has two attributes that must be articulated as following:

- ❖ A cause (i.e. any event or action)

MLM RISK MANAGEMENT STRATEGY

- ❖ An effect (i.e. impact on achievement of objectives)

The three constituent elements of risk are:

- ❖ Inherent risk
- ❖ Control risk
- ❖ Detection risk

Mangaung Metropolitan Municipality is subjected to its own inherent and control risks and these risks should be catalogued for use in risk assessment.

The Municipality has its own, unique inherent risks associated with its operations and management style. The risks are countered by installing controls. Since there is no way to reduce risk to zero, there will be some risk even after the best controls are installed (control risk). That degree of risk is control risk. A more detailed discussion of inherent risk, control risk and detection risk follows:

(a) Inherent risk

Inherent risk is defined as per the definition above. It is evaluated by considering the degree of probability and potential size of an adverse impact on strategic objectives and other activities.” With the background of the Municipality’s broad outlook on risk, inherent risk also relates to the intrinsic susceptibility of operational and administrative activities to errors and/or fraud that could lead to the loss of Municipality resources or the non-achievement of Municipality objectives.

The importance of inherent risk evaluation is that it is an indicator of potential high-risk areas of the Municipality’s operations that would require particular emphasis and it is also an essential part of the combined risk assessment for each process. The identification of all risks pertaining to a process is also the starting point of the risk assessment exercise.

Aspects that bear consideration when assessing the inherent risk are grouped into three categories, namely:

The operational risk

The management environment

The accounting environment

Factors that could influence inherent risk under the three categories are:

Operational risk

Some programs / mega processes/projects may have more inherent risk attached to it. Some objectives, outputs and outcomes may have higher priority than others. The objective’s outputs and outcomes as well as the program operations may also be subject to variable factors outside the Municipality’s control that may make it more difficult to achieve the program objectives. These variables outside the Municipality’s control increase the overall risk profile of the program / mega process/project and therefore also the inherent risk.

The management environment

The integrity of management and staff.

The potential for internal control override, and deception, is always present. An assessment of management and staff’s integrity is difficult. If there were past incidences of fraud or theft within a program or sub process where personnel were involved, and these personnel are still working there the possibility of a lack in integrity would be obvious. A wide range of reasons might tempt management to manipulate accounting records or misstate financial information.

MLM RISK MANAGEMENT STRATEGY

(b) Control Risk

Control risk is defined as “the risk that an error which could occur and which, individually or when aggregated with other errors, could be material to the achievement of Municipality’s objectives, will not be prevented or detected on a timely basis by the internal controls.” That is, a risk that the Municipality’s controls (processes, procedures, etc) are insufficient to mitigate or detect errors or fraudulent activities.

Control risk arises simply because the accounting system lacks built-in internal controls to prevent inaccurate, incomplete and invalid transaction recording, or due to the intrinsic limitations of internal controls. These limitations are due to factors such as:

The potential for management to override controls,
Collusion circumventing the effectiveness of the segregation of duties;
Human aspects such as misunderstanding of instructions, mistake make in judgment, carelessness, distraction or fatigue.

Control risk also arises when certain risks are simply not mitigated by any control activities.

(c) Detection Risk

Detection risk is defined as “the risk that management’s procedures will fail to detect error which, individually or when aggregated with other errors, could be material to the financial information as a whole.” This would also include errors that could be material to the Municipality as a whole.

Risk Classification

In order to integrate risk management into other management processes, the terminology should be easily understandable by everyone in the municipality. By developing a common Municipality risk language, managers can talk with individuals in terms that everybody understands. An essential step in developing a common Municipality risk language is to classify risks identified in various categories.

The categories to be used by the Municipality are as follows:

Risk Type	Risk Category	Description
Internal	Human resources	Risks that relate to human resources of an institution. These risks can have an effect on an Institution's human capital with regard to: <ul style="list-style-type: none">• Integrity and honesty;• Recruitment;• Skills and competence;• Employee wellness;• Employee relations;• Retention; and

MLM RISK MANAGEMENT STRATEGY

		<ul style="list-style-type: none"> Occupational health and safety.
	Knowledge and Information management	<p>Risks relating to an Institution's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge management:</p> <ul style="list-style-type: none"> Availability of information; Stability of the information; Integrity of information data; Relevance of the information; Retention; and Safeguarding.
	Litigation	<p>Risks that the Institution might suffer losses due to litigation and lawsuits against it. Losses from litigation can possibly emanate from:</p> <ul style="list-style-type: none"> Claims by employees, the public, service providers and other third party Failure by an institution to exercise certain rights that are to its advantage
	Loss \ theft of assets	<p>Risks that an Institution might suffer losses due to either theft or loss of an asset of the institution.</p>
	Material resources (procurement risk)	<p>Risks relating to an Institution's material resources. Possible aspects to consider include:</p> <ul style="list-style-type: none"> Availability of material; Costs and means of acquiring \ procuring resources; and The wastage of material resources
	Service delivery	<p>Every Institution exists to provide value for its stakeholders. The risk will arise if the appropriate quality of service is not delivered to the citizens.</p>
	Information Technology	<p>The risks relating specifically to the Institution's IT objectives, infrastructure requirement, etc. Possible considerations could include the following when identifying applicable risks:</p> <ul style="list-style-type: none"> Security concerns;

MLM RISK MANAGEMENT STRATEGY

		<ul style="list-style-type: none"> • Technology availability (uptime); • Applicability of IT infrastructure; • Integration / interface of the systems; • Effectiveness of technology; and • Obsolescence of technology.
	Third party performance	<p>Risks related to an institution's dependence on the performance of a third party. Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with an institution. Non-performance could include:</p> <ul style="list-style-type: none"> • Outright failure to perform; • Not rendering the required service in time; • Not rendering the correct service; and • Inadequate / poor quality of performance.
	Health & Safety	<p>Risks from occupational health and safety issues e.g. injury on duty; outbreak of disease within the institution.</p>
	Disaster recovery / business continuity	<p>Risks related to an Institution's preparedness or absence thereto to disasters that could impact the normal functioning of the Institution e.g. natural disasters, act of terrorism etc. This would lead to the disruption of processes and service delivery and could include the possible disruption of operations at the onset of a crisis to the resumption of critical activities. Factors to consider include:</p> <ul style="list-style-type: none"> • Disaster management procedures; and • Contingency planning.
	Compliance \ Regulatory	<p>Risks related to the compliance requirements that an Institution has to meet. Aspects to consider in this regard are:</p> <ul style="list-style-type: none"> • Failure to monitor or enforce compliance • Monitoring and enforcement mechanisms; • Consequences of non-compliance; and

MLM RISK MANAGEMENT STRATEGY

		<ul style="list-style-type: none"> Fines and penalties paid.
	Fraud and corruption	These risks relate to illegal or improper acts by employees resulting in a loss of the Institution's assets or resources.
	Financial	<p>Risks encompassing the entire scope of general financial management. Potential factors to consider include:</p> <ul style="list-style-type: none"> Cash flow adequacy and management thereof; Financial losses; Wasteful expenditure; Budget allocations; Financial statement integrity; Revenue collection; and Increasing operational expenditure.
	Cultural	<p>Risks relating to an Institution's overall culture and control environment. The various factors related to organisational culture include:</p> <ul style="list-style-type: none"> Communication channels and the effectiveness; Cultural integration; Entrenchment of ethics and values; Goal alignment; and Management style.
	Reputation	Factors that could result in the tarnishing of an Institution's reputation, public perception and image.
External	Economic Environment	<p>Risks related to the Institution's economic environment. Factors to consider include:</p> <ul style="list-style-type: none"> Inflation; Foreign exchange fluctuations; and Interest rates.
	Political environment	<p>Risks emanating from political factors and decisions that have an impact on the institution's mandate and operations. Possible factors to consider include:</p> <ul style="list-style-type: none"> Political unrest; Local, Provincial and National elections; and

MLM RISK MANAGEMENT STRATEGY

		<ul style="list-style-type: none"> Changes in office bearers.
	Social environment	<p>Risks related to the Institution's social environment. Possible factors to consider include:</p> <ul style="list-style-type: none"> Unemployment; and Migration of workers.
	Natural environment	<p>Risks relating to the Institution's natural environment and its impact on normal operations. Consider factors such as:</p> <ul style="list-style-type: none"> Depletion of natural resources; Environmental degradation; Spillage; and Pollution.
	Technological environment	Risks emanating from the effects of advancements and changes in technology.
	Legislative environment	Risks related to the Institution's legislative environment e.g. changes in legislation, conflicting legislation.

5.2.2.2 Risk Analysis:

Risk analysis allows the Municipality to consider how potential risks might affect the achievement of objectives. Management assesses events from two perspectives: likelihood and impact. Likelihood represents the possibility that a given event will occur, while impact represents the effect should it occur.

Below tables represents the likelihood and impact criteria that will be used by the Municipality to rate risks:

(a) LIKELIHOOD CRITERIA:

Rating	Likelihood	Description
5	Common	The risk is already occurring, or is likely to occur more than once within the next 12 months (Probability = 100% p.a.)
4	Likely	The risk could easily occur, and is likely to occur at least once within the next 12 months (Probability = 75 – 100% p.a.)
3	Moderate	There is an above average chance that the risk will occur at least once in the next 3 years (Probability = 50 – 75% p.a.)
2	Unlikely	The risk occurs infrequently and is unlikely to occur within the next 3 years (Probability = 35 – 50% p.a.)
1	Rare	The risk is conceivable but is only likely to occur in extreme circumstances (Probability = 0 – 35% p.a.)

MLM RISK MANAGEMENT STRATEGY

(b) IMPACT CRITERIA:

Rating	Severity Rating	Continuity of Service Delivery	Safety & Environment	Financial	Achievement of Objectives
5	Critical	Risk event will result in widespread and lengthy disruption in continuity of service delivery to stakeholders of greater than 48hrs	Major environmental damage, Serious injury (permanent disability) or death of a person, Mayor negative media coverage	Significant cost overruns >20% over budget (higher of income or expenditure budget)	Negative outcomes or missed opportunities that are of critical importance to the achievement of objectives
4	Major	Reduction in supply or disruption for a period ranging between 24 - 48hrs over a significant area	Significant injury of a person. Significant environmental damage. Significant negative media coverage.	Significant cost overruns between 10% and 20% over budget (higher of income or expenditure budget)	Negative outcomes or missed opportunities that likely to have a relatively substantial impact to the ability to the achievement of objectives
3	Moderate	Reduction in supply or disruption for a period between 8-23hrs over a regional area	Lower level environmental, safety or health impacts. Limited negative media coverage	Moderate impact on budget (higher of income or expenditure budget)	Negative or missed opportunities that are likely to have a moderate impact on the ability to meet objectives
2	Minor	Brief local inconvenience (workaround possibility) Loss of an asset with minor impact on operations	Little environmental, safety or health impacts. Limited negative media coverage	Minor impact on budget (higher of income or expenditure budget)	Negative or missed opportunities that are likely to have a minor impact on the ability to meet objectives
1	Insignificant	Insignificant impact on business or core systems	Insignificant environmental, safety or health impacts and or negative media coverage	Insignificant financial loss	Negative or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives

MLM RISK MANAGEMENT STRATEGY

(c) RISK RATING:

High	15-25
Medium	8-14
Low	1-7

(d) RISK MAPPING THAT MANGAUNG METRO MUNICIPALITY WILL USE TO PLOT RISKS:

LIKEHOOD	Common	5	10	15	20	25
	Likely	4	8	12	16	20
	Moderate	3	6	9	12	15
	Unlikely	2	4	6	8	10
	Rare	1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Critical
		IMPACT				

4.2.2.3 Risk Evaluation:

Within the risk management framework, risk evaluation/prioritisation provides the link between risk assessment and risk control. Risks assessed as key risks will be introduced and managed within the control major-process.

Depending on the results of the risk analysis performed, risks will be prioritised per directorate within the municipality. The prioritised risks will inform both the scope of internal audit and the risk management committee. Both these defense structures will primarily focus on the risks assessed as high and medium successively.

Risk Appetite and Tolerance

Risk Appetite is the level of risk which is established through a rigorous analytical process (including consideration of cost vs benefit) that the Municipality is prepared and able to accept in furtherance of its objectives.

Risk Tolerance is the amount of risk the municipality is capable of bearing.

The details relating to the Municipality's approach to risk appetite and tolerance is captured in the Risk Appetite and Tolerance Framework.

4.2.3 Risk Treatment/Response:

Once risks have been identified, assessed and evaluated there will be enough information to begin the process of responding to the risks. This involves selecting the options for modifying or mitigating the identified risks and implementing these options. Responding to risks is cyclical process that begins with assessing a proposed risk response for suitability and effectiveness.

When choosing, evaluating or re-evaluating how to respond to a risk, one should determine whether residual risk levels are acceptable, and if not, consider what additional responses may be required. This will ensure that risks are managed within the risk tolerance and risk appetite thresholds established above.

The Municipality will use the following four risk responses in dealing with risks:

4.2.3.1 Terminating Risk:

Risk termination involves eliminating the risk-producing activity entirely (or never beginning it). Although termination is highly effective, it is often impractical or undesirable, either because the Municipality is legally required to engage in the activity or because the activity is so beneficial to the community that it cannot be discontinued.

4.2.3.2 Tolerating Risk:

Risk tolerance is where no further action is taken to mitigate or reduce a risk. This may be because the cost of instituting risk reduction or mitigation activity is not cost-effective or the risks of impact are at low that they are deemed acceptable to the municipality. Even when these risks are tolerated they should be monitored because future changes may make it no longer tolerable.

MLM RISK MANAGEMENT STRATEGY

4.2.3.3 Treating Risk:

Risk treatment is a method of controlling risk through actions that reduce the likelihood of the risk occurring or minimize its impact prior to occurrence. The Municipality will implement corrective action to manage risks identified while still performing the activity from the Municipality, e.g. after a loss has occurred, risk control strategies keep the resulting damages to a minimum.

4.2.3.4 Transferring Risk:

Risk transfer strategies turn over the responsibility of performing a risky activity to another party, such as an independent contractor, and assign responsibility for any losses to that contractor. The directorates is responsible for choosing a suitable response for dealing with a key risk. The implementation and eventual operation of this strategy is the responsibility of head of departments and must be within above risk response strategies.

Selection of risk response options

There are several factors to consider when selecting the risk response:

- What the residual risk would be after responding to the risk and whether this residual risk is acceptable;
- The cost to benefit ratio-balancing effort and expenditure required with the benefit;
- Legal or regulatory requirements;
- Risk response that may not be economically viable, but still warranted;
- Has sufficient investigation and resources been applied to the development of new risk response capabilities;
- Solitary response options or combinations of responses (e.g. a mixture of preventative and corrective measures);
- The values and perceptions of stakeholders; and
- Secondary risks arising from the choice of response.

Risk controls

A risk response is essentially a control that influences the likelihood or impact of the risk. Controls can be divided into three groups according to how they influence risk – preventative, detective or corrective:

- **Preventative controls** affect the likelihood of a particular risk occurring. The primary advantage of a preventative control is that the effort required to prevent a risk from occurring can be significantly lower than dealing with the consequences. This control prevent errors or irregularities from occurring e.g. Physical security of assets to prevent theft.
- **Detective controls** identify events that have already happened, but which have not necessarily affected the operational ability of the Municipality. This control finds errors or irregularities after they have occurred e.g. Performance of reconciliation procedures to identify errors.
- **Corrective controls** affect the severity or consequences of risk, either minimizing harm or optimizing benefits. This control operates together with detective controls to correct errors or irregularities e.g. insurance, emergency response plans/teams, back-up power generators.

MLM RISK MANAGEMENT STRATEGY

Perceived control effectiveness

After analysing the risks, existing applied control measures and their effectiveness will be measured according to the following rating scale:

Effectiveness Category	Category Definition
Effective	meaning that control measures are effective in mitigating the risk to acceptable residual risk levels.
Partially Effective	meaning that control measures are to a certain extent working to reduce the residual risk.
Not Effective	meaning that the current applied control measures are not effective in addressing the risk or reducing.
No Control	meaning that there are no controls in place to address the risk or reduce it.

The risk response plan for high and medium risks will include:

- Type of response chosen;
- The proposed mitigation action plan; and
- Date to resolve.

The response plans should be integrated with the municipality's management processes and communicated with various relevant stakeholders. All stakeholders should appreciate that risk management is not aimed at eliminating risk, but rather to manage it to keep within the acceptable risk thresholds.

4.2.4 Monitoring and Review:

Monitoring and reviewing are an essential and important step in the process of managing risk. It is necessary to monitor risks, the effectiveness of the plan, strategies, and controls that have been set up to manage unacceptable risks. Risks and the effectiveness of controls measures need to be monitored periodically to ensure changing circumstances do not alter the risk priorities.

The monitoring process aims at assisting management in understanding the risk profile of the directorate and, how changes or developments influence the risk profile and what must be done in order to protect the Municipality against risk exposure. It is important that the critical risks be identified and managed in the most effective way and that the less critical risks do not become critical.

Monitoring includes regular management and supervision of activities, as well as the other actions that employees undertake during the performance of their daily activities. The continuous monitoring of risks is essential in order to ensure the quality of Municipality's risk management process.

The objectives are to determine if:

- a) risk mitigation action plans have been implemented as planned;
- b) risk mitigation action plans are as effective as expected;
- c) level of risk priority has changed from its prior state;

MLM RISK MANAGEMENT STRATEGY

- d) a risk event has occurred;
- e) proper policies and procedures were followed; and
- f) risks not previously identified have occurred.

Risk Monitoring shall be performed on a quarterly basis within Manguang Metropolitan Municipality.

4.2.5 Communication and Consultation:

Relevant information, properly and timeously communicated is essential to equip the relevant officials to identify, assess and respond to risks. The Municipality's risk communication process will support enhance decision making and accountability through:

- a) Dissemination of relevant, timely, accurate and complete information; and
- b) Communicating responsibilities and actions.

Consultation is a two-way process of informed communication between the Municipality and its stakeholders on an issue prior to decision making.

Consultation is:

- a) a process which impacts on a decision through influence rather than power;
- b) An input to decision making, not joint decision making.

Effective communication and consultation are key components in successfully implementing risk management program. Communication is necessary to increase the awareness of the risk management program. Various mechanisms are implemented by the Risk Management Unit which are awareness campaigns, training and employee induction sessions i.e. are used to ensure that communication is effective and reaches every employee throughout the Municipality. An effective communication and consultation approach will increase the level of risk management and understanding at all levels of the Municipality.

5. RISK REPORTING

The success of risk management depends on the availability of reliable information and effective communication at various levels. Pertinent information should be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities.

Information is needed at all levels to identify, assess and respond to risks. Management must process and refine large volumes of data into relevant and actionable information.

Risk information is to be maintained on a risk register. The register will be maintained by the Risk Management Unit and Heads of Department. Management is responsible for ensuring that the register is complete, relevant and accurate.

For each risk the following minimum information is to be maintained:

- a) Directorate
- b) Unit
- c) Objective
- d) Risk description
- e) Risk type
- f) Root Cause
- g) Consequences of risk

MLM RISK MANAGEMENT STRATEGY

- h) Inherent risk rating
- i) Existing controls
- j) Control effectiveness
- k) Residual risk rating
- l) Risk Owner
- m) Risk response
- n) Mitigation action plan
- o) Date resolved

For monitoring the following information should be included:

- a) Progress on the implementation of the action plan.
- b) Reasons for not reaching the target date.
- c) Impact of the residual risk.

Reporting on risk management activities will occur as follows:

Function	Frequency	Report to
Directorates (Risk Owners)	Quarterly	Risk Management Unit
Risk Management Unit	Quarterly	Risk Management Committee Audit and Performance Committee
Risk Management Committee	Quarterly Quarterly	Municipal Manager Audit and Performance Committee

6. RISK MANAGEMENT ROLES AND RESPONSIBILITIES

The Municipality's risk management oversight is the responsibility of the Council.

The Council has delegated its risk management oversight responsibility to the Audit and Performance Committee and the Risk Management Committee i.e. these committees focus on a specific mandate which includes, inter alia, functions associated with Municipality's wide risk management oversight.

Risk management ownership and responsibility rests with management whilst ultimate accountability rests with the Municipal Manager. The Municipal Manager should ensure that all strategic and key operational risks that have been identified within the Municipality and are discussed and

MLM RISK MANAGEMENT STRATEGY

6.1 Council

Council takes an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the Municipality against significant risks.

Responsibilities of Council in risk management include:

- a) Ensuring that the municipal strategies and objectives are aligned to the government mandate and community's priorities;
- b) Insisting on the achievement of objectives, effective performance management and value for money;
- c) Understand the Municipality's risk profile;
- d) Being aware of and concurring with the Municipality's risk appetite;
- e) Understanding the priority risks, especially those where Council can play a role in risk mitigation without interfering with the mandate of the Accounting Officer;
- f) Obtaining assurance from management that the municipality's strategic choices were based on a rigorous assessment of risk;
- g) Obtaining assurance that key priority risks inherent in the municipality's strategies were identified and assessed, and are being properly managed;
- h) Assisting the Accounting Officer to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence; and
- i) When other agencies deliver services, Council must retain power and ensure that delegated functions are performed properly within a clear policy framework and legal contracts.

6.2 Municipal Public Accounts Committee (MPAC)

The MPAC is established through section 79 of the Municipal Structures Act in order to promote transparency, accountability, good governance, effective financial management, and quality service delivery at the municipality.

Its primary function in relation to risk management is:

- a) To consider and evaluate the risk management content contained in the annual report and to make recommendations to Council when adopting an oversight report on the annual report;
- b) Review information relating to past recommendations made on the annual report on risk management including the quarterly and mid-year reports;
- c) Examine audit reports of the municipality, taking into consideration improvements from previous reports and must evaluate the extent to which Audit and Performance Committee and the Auditor-General of South Africa's recommendations relating to risk management have been implemented; and
- d) To perform any other functions assigned to it through a resolution of Council within its area of responsibility.

6.3 Mayoral Committee (MAYCO)

The MAYCO provides oversight to the Accounting Officer and is accountable to the Council.

The MAYCO is responsible for carrying out any risk management related responsibilities that may have been delegated to it by the Executive Mayor.

MLM RISK MANAGEMENT STRATEGY

6.4 Municipal Manager

The Municipal Manager as the Accounting Officer is the ultimate Chief Risk Officer of the Municipality and is accountable for the Municipality's overall governance of risk.

Responsibilities of the Municipal Manager include:

- a) Delegate the responsibilities for developing and maintaining an effective and efficient system of risk management as set out under the paragraph dealing with responsibilities of a competent Chief Risk Officer but maintains accountability;
- b) Setting the tone for integrity, ethics and other factors of the control environment in the Municipality;
- c) Setting an appropriate tone by supporting and being seen to be supporting the Municipality's aspirations for effective management of risks;
- d) Delegating responsibilities for risk management to Management and internal functions and holding them accountable;
- e) Holding Management accountable for designing, implementing, monitoring and integrating risk management into their day-to-day activities;
- f) Providing leadership and guidance to enable Management and internal structures responsible for various aspects of risk management to properly perform their functions;
- g) Ensuring that the control environment supports the effective functioning of risk management;
- h) Considering the inputs and recommendations of the Audit and Performance Committee and Risk management Committee, approve:
 - the risk management policy, strategy and implementation plan;
 - the fraud prevention policy, strategy and implementation plan;
 - risk appetite framework;
- i) Devoting personal attention to overseeing management of the significant risks;
- j) Leveraging the Audit and Performance Committee, Internal Audit, Auditor-General of South Africa and Risk Management Committee for assurance on the effectiveness of risk management;
- k) Ensuring appropriate action in respect of the recommendations of the Audit and Performance Committee, Internal Audit, Auditor-General of South Africa and Risk Management Committee to improve risk management; and
- l) Providing assurance to relevant stakeholders that priority risks are properly identified, assessed and mitigated.

6.5 Chief Financial Officer (CFO)

The CFO has a duty to that the financial resources needed to manage the Municipality's risks are available, by:

- a) Driving a risk-based budgeting system and ensuring that the budget process is aligned to risk management; and
- b) Ensuring risk reporting in the budget reports.

The CFO also needs to ensure that the critical risks within the financial environment are identified, assessed and managed; and should also champion risk management within the financial environment to deal with the Municipality's financial risks.

MLM RISK MANAGEMENT STRATEGY

6.6 Audit and Performance Committee

The Audit and Performance Committee is an independent committee responsible for oversight of the Municipality's control, governance and risk management.

The responsibilities of the Committee with respect to risk management are formally defined in its charter.

The Committee should provide an independent and objective view of the Municipality's risk management effectiveness.

The Committee should be active and possess appropriate management, technical and other expertise, coupled with the mind-set to perform its oversight responsibilities.

The Committee must be prepared to scrutinize and question management activities, present alternative views and act in the face of wrongdoing.

Responsibilities of the Committee, where there is a separate Risk Management Committee, should include:

- a) Reviewing and recommending disclosures on matters of risk management in the annual financial statements and annual report;
- b) Providing regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the Municipality, including recommendations for improvement;
- c) Ensuring that the internal audit and Auditor-General of South Africa plans are aligned to the risk profile of the Municipality;
- d) Providing oversight over the combined assurance process;
- e) Reviewing and concurring with the Municipality's risk appetite;
- f) Receiving and considering reports from the Risk Management Committee;
- g) Satisfying itself that it has appropriately addressed the following areas:
 - o Financial reporting risk, including the risk of fraud;
 - o Internal financial controls; and
 - o IT risks as they relate to financial reporting.

The Committee should evaluate the effectiveness of Internal Audit in its responsibilities for risk management.

Where there is no separate Risk Management Committee, the risk management responsibilities of the Audit and Performance Committee should be identical to those listed in 6.7 below.

6.7 Fraud Risk Management Committee

The Fraud Risk Management Committee is appointed by the Accounting Officer to assist in discharging his responsibilities for risk management. The Committee's responsibilities are formally defined in a charter approved by the Accounting Officer.

Responsibilities of the Committee include:

- a) Reviewing and recommending for the approval of Council/Accounting Officer, the:
 1. Risk management policy;
 2. Risk management strategy;
 3. Risk management implementation plan;
 4. Risk appetite framework;

MLM RISK MANAGEMENT STRATEGY

5. Evaluating the extent and effectiveness of integration of risk management within the Municipality;
- b) Evaluating the effectiveness of the mitigating strategies implemented to address the material risks of the Municipality;
- c) Reviewing the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations;
- d) Developing key performance indicators for its own performance for approval by the City Manager;
- e) Collaborating with the Audit and Performance Committee on all matters concerning risks and risk management;
- f) Providing timely and useful reports to the City Manager and Audit and Performance Committee on the state of risk management, together with recommendations to address any deficiencies identified;
- g) In instances where the scale, complexity and geographical dispersion of the Municipality's activities dictate the need for the Risk Management Committee to work through sub-committees, the Risk Management Committee should ensure that:
 1. Approval is obtained from the Council for the establishment of the sub-committees;
 2. The terms of reference of the sub-committee aligned to that of the Risk Management Committee; and
 3. The Risk Management Committee exercises control over the functioning of the sub-committee.

6.8 Chief Risk Officer

The primary responsibility of the Chief Risk Officer is to bring to bear her specialist expertise to assist the Municipality to embed risk management and leverage its benefits to enhance performance.

Responsibilities of the Chief Risk Officer include:

- a) Being responsible for the Risk management Unit and other delegations by the Accounting Officer;
- b) Working with senior management to develop the Municipality's vision for risk management;
- c) Developing, in consultation with management, the Municipality's risk management framework incorporating, *inter alia*, the:
 1. Risk management policy;
 2. Risk management strategy;
 3. Risk management implementation plan;
 4. Risk identification and assessment methodology;
 5. Risk appetite; and
 6. Risk classification.
- d) Determining, implementing and maintaining effective risk management infrastructure, policies, procedures and processes;
- e) Communicating the Municipality's risk management framework to all stakeholders in the Municipality and monitoring its implementation;
- f) Ensuring that the Audit and Performance Committee, Risk Management Committee and senior management are adequately appraised and trained on current and emerging risk management concepts and principles;
- g) Establishing, communicating and facilitating the use of appropriate risk management methodologies, tools and techniques;
- h) Facilitate training for all stakeholders in their risk management functions;
- i) Assisting Management with risk identification, assessment and development of response strategies; and monitoring the implementation thereof;

MLM RISK MANAGEMENT STRATEGY

- j) Working with management and staff to establish and maintain effective risk management in their areas of responsibility, including the reform of internal processes and policies to incorporate elements and practice of risk management at the operational/functional level;
- k) Collating, aggregating, interpreting and analyzing the results of risk assessments to extract risk intelligence;
- l) Reporting risk intelligence to the Accounting Officer, Management and the Risk Management Committee;
- m) Monitoring the Municipality's risk profile, ensuring that major risks are identified and reported upwards;
- n) Facilitating Municipal-wide risk evaluation and monitoring the capabilities around the management of the major risks;
- o) Participating with Internal Audit, Management and Auditor-General of South Africa in developing the combined assurance plan for the Municipality;
- p) Overseeing risk management Unit's participation in combined assurance process;
- q) Drafting the risk management disclosures for the annual financial statements and annual report for approval by the Accounting Officer; and
- r) Continuously driving risk management to higher levels of maturity.

6.9 Management

Management is ultimately accountable for managing risks within their areas of responsibilities, for executing their responsibilities outlined in the risk management strategy and integrating risk management into the operational routines by modifying policies, procedures as well as performance and reward criteria to align to the risk management imperative.

Responsibilities of Management include:

- a) Executing their responsibilities as set out in the risk management strategy;
- b) Empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- c) Aligning the functional risk management methodologies and processes with the municipal process;
- d) Devoting personal attention to overseeing the management of priority risks within their area of responsibility;
- e) Maintaining a co-operative relationship with the risk management unit;
- f) Providing risk management reports;
- g) Reporting Presenting to the Risk Management and Audit and Performance Committees when requested;
- h) Maintaining the proper functioning of the control environment within their area of responsibility;
- i) Monitoring risk management within their area of responsibility; and
- j) Holding officials accountable for their specific risk management responsibilities.

6.10 Other Officials

Other officials are responsible for integrating risk management into their day-to-day activities.

Responsibilities of other officials include:

- a) Applying the risk management processes in their respective functions;
- b) Implementing the delegated action plans to address the identified risks;

MLM RISK MANAGEMENT STRATEGY

- c) Informing their supervisors and/or the risk management unit of new risks and significant changes in risks;
- d) Escalating instances where management of risk is beyond their control; and
- e) Co-operating with other role players in the risk management process and providing information as required.

6.11 Risk Champions

The Risk Champion is a person with the skills, knowledge, leadership qualities and power of office required to champion a particular aspect of risk management.

A key part of the Risk Champion's responsibility involves intervening in instances where the risk management efforts are being hampered.

The Risk Champion also adds value to the risk management process by providing guidance and support to manage "problematic" risks and risks of a transversal nature that require a multiple participant approach.

In order to fulfil his/her function, the Risk Champion should possess:

- 1) A good understanding of risk management concepts, principles and processes;
- 2) Good analytical skills;
- 3) Expert power;
- 4) Leadership and motivational qualities; and
- 5) Good communication skills.

The Risk Champion does not assume the role of the Risk Owner but should assist the Risk Owner to resolve problems.

Some of the roles and responsibilities of the Risk Champion may also include:

- a) Advocating the culture of change and adopting risk management as a professional discipline to be adopted in every day management of activities and to strategically influence the current way of doing things which is compliance driven;
- b) Educating the stakeholders of the importance of managing risks in dealing with public funds, the responsibility that goes beyond meeting the requirements of financial management prescripts but most importantly impacting positively service delivery;
- c) Communicating the right message and driving this message to influence behavior and discipline in getting the basics right. This extends further to ensuring the use of a common risk management language and consistent messages in all communications; and
- d) Informing the users and stakeholders of current demands, need to improve, what to improve and how to improve to leave the legacy that goes beyond compliance but continuous improvement of accountability and service delivery.

6.12 Internal Audit

The role of the Internal Audit in risk management is to provide an independent, objective assurance on the effectiveness of the Municipality's system of risk management. Internal Audit evaluates the effectiveness of the entire system of risk management and provides recommendations for improvement where necessary.

Internal Audit develops its internal audit plan on the basis of the key risk areas. In terms of the International Standards for the Professional Practice of Internal Audit, determining whether risk management processes are effective is a judgment resulting from the Internal Auditor's assessment that:

MLM RISK MANAGEMENT STRATEGY

- a) Municipal objectives support and align with the Municipality's mission;
- b) Significant risks are identified and assessed;
- c) Risk responses are appropriate to limit risk to an acceptable level; and
- d) Relevant risk information is captured and communicated in a timely manner to enable the Accounting Officer, Management, the Risk Management Committee and other officials to carry out their responsibilities.

When assisting Management in establishing or improving risk management processes, Internal Audit must refrain from assuming management responsibilities for risk management, as well as auditing the risk management function.

6.13 External Audit

The external auditor (Auditor-General of South Africa) provides an independent opinion on the effectiveness of risk management as part of the regularity audit.

In providing the audit opinion, the Auditor-General usually focuses on:

- a) Determining whether the risk management policy, strategy and implementation plan are in place and are appropriate;
- b) Assessing the implementation of the risk management policy, strategy and implementation plan;
- c) Reviewing the risk identification process to determine if it sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks;
- d) Reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritization; and
- e) Determining whether management action plans to mitigate the key priority risks are appropriate, and are being effectively implemented.

The Auditor-General of South Africa will also probe the root causes of audit findings and flag the related risks.

7. DISCLOSURE

In order for risk management to work, it must be embedded into everyday activities of the Municipality. It should be integrated into the reporting process. Risk should be part of every decision that is made, every objective that is set and every process that is designed. Risk management will be integrated into the reporting processes of Heads of Departments on quarterly basis.

Every Head of Department shall on a quarterly basis and as they submit risk management monitoring inputs disclose that:

- I. he /she is accountable for the process of risk management and the systems of internal control which are regularly reviewed for effectiveness, and in establishing appropriate risk and control policies and communicating this throughout the office;
- II. there is an on-going process for identifying, evaluating and managing the significant risks faced by the directorate concerned;

MLM RISK MANAGEMENT STRATEGY

- III. there is an adequate and effective system of internal control in place to mitigate the significant risks faced by the directorate concerned to an acceptable level;
- IV. there is a documented and tested process in place which will allow the directorate to continue its critical business process in the event of disastrous incident impacting on its activities. This is commonly known as business continuity plan and should cater for worst-case scenario; and
- V. that the directorate complies with the process in place, established to review the system of internal control for effectiveness and efficiency.

8. RISK MANAGEMENT STRATEGY ADMINISTRATION

The Risk Management Unit is responsible for the monitoring and revision of this strategy. The strategy shall be revised and approved by Municipal Manager annually.

Compiled By:

Me DR Shuping
Chief Risk Officer

Date: _____

Recommended By:

Me MP Mototo
Fraud Risk Committee Chairperson

Date: _____

Approved By:

Me PH Tshabalala
Municipal Manager

Date: _____