RISK MANAGEMENT STRATEGY

2022-2023

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1. STRATEGY INTENT

The aim of this strategy is to ensure that the Matjhabeng Local Municipality (MLM) makes informed decisions with regard to the activities that it undertakes by appropriately considering both risks and opportunities.

This strategy outlines the outcomes and compliance obligations regarding the Risk Management for all employees.

2. PURPOSE

The main purpose of this framework is to assist the Executives and Management in the effective implementation of risk management principles in identification, assessment, evaluation, analysis and control of risks that may hinder achievement of the Municipality's goals, its corporate governance, and service delivery. It is therefore essential that risk management is integrated in to Municipality's daily operations and processes for effective, efficient and economical delivery of the Municipality's mandate. All MLM employees should therefore view risk management as an inter-linking tool to support the achievement of Municipal objectives.

"If risk management is to be effective there must be a clear link between objectives and risks. It is, therefore, essential that risk management is embedded in the planning process."

One of the most important mandates is the development and implementation of an integrated risk management strategy whose major objective is to encourage best practice within an evolving government service delivery strategy, while minimising the risks and ensuring that MLM meets its objectives outlined in the Integrated Development Plan.

3. OBJECTIVES AND BENEFITS

3.1. The objectives of Risk Management Strategy are as follows:

3.1.1. Implementation of purposeful and systematic risk identification, risk assessment, risk evaluation and risk mitigation management strategies to ensure the achievement of the Municipality's goals and objectives;

3.1.2. The determination of risk mitigation strategies and controls to reduce risk exposure, and improve the management of significant and Municipal wide risks;

3.1.3. Regular risk assessment, evaluation and prioritisation of risks with a view to ensure optimal risk management and related results;

3.1.4. To provide management with proven risk management tools that support their decision-making responsibilities and processes, and managing key risks (threats and opportunities) impacting on their goals and objectives;

3.1.5. Ensure that all employees within MLM have an understanding of risk, and the Municipality adopts a uniform approach for the identification and prioritisation of risks;
3.1.6. To ensure that risk management processes exist in an environment of continuous feedback and improvement;
3.1.7. Embedding risk management processes within the strategic and operational activities of the Municipality.
3.1.8. To provide and maintain a working environment where everyone is following sound risk management practices and is held accountable for achieving results;
3.1.9. To provide with the framework on which the employees will utilise to implement risk management;
3.1.10. 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;
3.1.11. To ensure that risk management activities are fully integrated into the planning, monitoring and reporting processes and into the daily management of program activities.

3.2. The Benefits of the Strategy:

Among others, the following are the benefits of Risk Management processes:

- More Informed decisions on regular management of achieving Municipality's objectives
- Reduction of losses;
- Prevention of fraud and corruption;
- Value for money through more efficient use of resources; and
- Enhanced outputs and outcomes through improved project and programme management.

The Risk Management Strategy facilitates the following benefits in relation to the Municipality's risk management process:

- Pro-active identification and management of risks arising from strategic and operational business activities, including projects, programs and contracts municipal-wide;
- Analysis, prioritization and evaluation of these risks to ensure adequate and efficient resource allocation in order to manage the risk exposures to an acceptable level.
- Pro-actively determining and implementing mitigating actions and strategies in order to control and reduce the risk exposures, and to continually improve Municipality's management of internal controls and processes.
- To maintain on-going monitoring and reporting on risks status.

4. ENTERPRISE RISK MANAGEMENT

The underlying premise of enterprise risk management is that every organisation within the public sector exists to provide service delivery. All organisations face uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build stakeholder value.

Enterprise risk management is an ongoing systematic process, effected by MLM, Council, Municipal Manger, Executive Management and other personnel, applied in strategy setting and across the Municipality designed to identify potential events that may affect Municipality's Mission and Vision on service delivery, and manage risk to be within the risk appetite and risk tolerance, in order to provide reasonable assurance regarding the achievement of Municipal goals, strategic objectives, and Implementation Plans.

ERM includes the following fundamental concepts:

4.1. Ongoing process:

- ERM is not static, but rather a continuous or interactive process that permeate the Municipality. The process is pervasive and inherent in the way management runs the business.

4.2. Effected by management at all levels of MLM:

- It is accomplished by all employees of MLM, on their day-to-day activities.

4.3. Applied in strategy setting:

- ERM is applied in strategy setting, in which management considers risks relative to alternative strategies.

4.4. Applied across the Municipality:

- It is applied at every level and unit, and therefore the ERM scope includes the entire activities of the Municipality.

4.5. Risk Appetite:

- Risk appetite is the amount of risk, on a broad level, the Municipality is willing to accept in pursuit of value.

4.6. Risk Tolerance:

- is the extent to which the Municipality is willing to accept the degree of risk exposures

4.7. Provides reasonable assurance:

- A well-designed, effective ERM processes provide management and Council with 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.

This enterprise risk management framework is geared to guide in achievement of Municipality's objectives, set forth in four categories:

- *Strategic* – high-level goals, aligned with and supporting its mission
- *Operations* – effective and efficient use of its resources
- *Reporting* – reliability of reporting
- *Compliance* – compliance with applicable laws and regulations.

Components of Enterprise Risk Management

Enterprise risk management consists of eight interrelated components. These are integrated with the management processes. The Municipality's Risk Management Strategy is premised on the COSO Enterprise Risk Management Integrated Framework, which consists of eight interrelated components. An overview of this framework is presented on Diagram1 below.. These components are:

- *Internal Environment* – The internal environment encompasses the '***tone at the top***' and sets the basis for how risk is viewed and addressed by MLM's Executives and Management, this includes risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate.

- *Objective Setting* – Objectives must exist before management can identify potential risks affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with MLM's mission and vision and are consistent with its risk appetite.

- *Event Identification* – Internal and external events affecting achievement of MLM's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channeled back to management's strategy or objective-setting processes.

- *Risk Assessment* – Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.

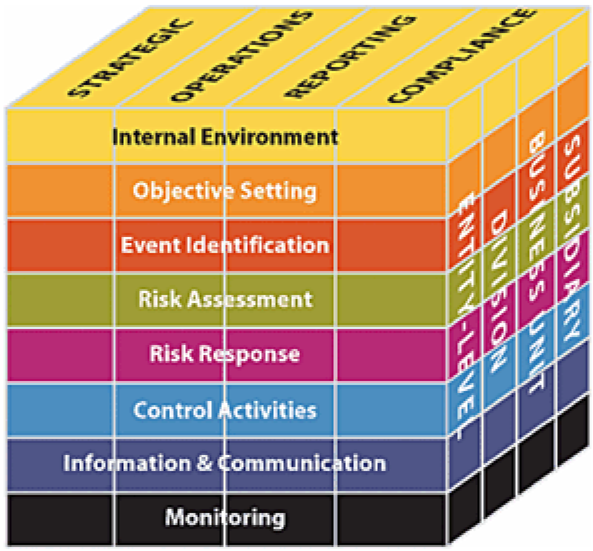
- *Risk Response* – Management selects risk responses – avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the MLM's risk tolerances and risk appetite.

- *Control Activities* – Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.

- *Information and Communication* – Relevant information is identified, captured, and communicated in a form and timeframe that enable the Executives, Management and employees to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the Organisational structure.

- *Monitoring* – The entirety of enterprise risk management is monitored and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.

Diagram 1: COSO ERM Framework



There is a direct relationship between objectives, which the Municipality strives to achieve, and enterprise risk management components, which represent what is needed to achieve them. The relationship is depicted in a three-dimensional matrix, on this diagram. This depiction portrays the ability to focus on the entirety of Municipality's risk management processes by objective category, its components, entity, business unit, and any subset thereof.

The MLM 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 as follows:

Inherent risk

Inherent risk is defined as the “a risk which it is impossible to manage in the MLM activity and arises from exposure and uncertainty from potential events. 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 MLM’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 MLM resources or the non-achievement of MLM objectives.

The importance of inherent risk evaluation is that it is an indicator of potential high-risk areas of the MLM’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 programmes / mega processes 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 programme operations may also be subject to variable factors outside the MLM’s control that may make it more difficult to achieve the programme objectives. These variables outside the MLM’s control increase the overall risk profile of the programme / mega process and therefore also the inherent risk.

The management environment

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 programme 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.

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 MLM’s objectives, will not be prevented or detected on a timely basis by the internal controls.” That is, a risk that the MLM’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.

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 MLM as a whole.

Risk classification

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

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

Natural hazards	Risks arising out of natural hazards such as floods, wildfires, earthquakes, hurricanes, thunderstorms, or snowstorms.
Contracts and legal relationships	Risks arising out of the MLM’s legal or contractual relationships.
Financial operations	Risks arising out of the MLM’s financial affairs, including collection of own revenue, expenditure, and all internal and external control procedures.

RISK ASSESSMENT

Risk assessment allows the MLM 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.

The following tables reflect the rating criteria that will be used by the MLM:

Risk Rating:

RISK RATING	PRIORITY
16 - 25	HIGH
10 - 15	MEDIUM
1 - 9	LOW

Risk Rating	Risk magnitude	Risk acceptability	Proposed actions
16 - 25	High Risk	Unacceptable	Take action to reduce risk.
10 - 15	Medium risk	Unacceptable	Take action to reduce risk.
1 - 9	Low risk	Acceptable	No risk reduction - control and monitor

Risk mapping that MLM will use to plot risks:

L I K E L I H O O D	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						

Financial resources	The impact of an event on the MLM's financial stability and ability to maintain funding for the activities that is critical to its mission.
Material resources	The impact of an event on the material resources—such as assets and property—that a government uses in the activities that are critical to its mission.
Human resources	The impact of an event on the MLM's workforce.
Service delivery	The impact of an event on the MLM's ability to deliver services.
Public perception of municipality	The impact of an event on the public's perception of the MLM and on the degree of cooperation the public is willing to give in conducting the activities that are critical to its mission.
Liability to third parties	The impact of an event on the MLM's liability to third parties.
Environment	The impact of an event on the environment and people who use it.
Public	The impact of an event on the public
Financial resources	The impact of an event on the MLM's financial stability and ability to maintain funding for the activities that is critical to its mission.
Material resources	The impact of an event on the material resources—such as assets and property—that a government uses in the activities that are critical to its mission.
Human resources	The impact of an event on the MLM's workforce.
Service delivery	The impact of an event on the MLM's ability to deliver services.

Impact criteria that will be used by MLM to rate risks:

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	Lower level environmental, safety or health impacts. Limited	Moderate impact on budget (higher of income or	Negative or missed opportunities that are likely to

		8-23hrs over a regional area	negative media coverage	expenditure budget)	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	No impact on business or core systems	No 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

Likelihood criteria that will be used by MLM to rate risks:

Rating	**Likelihood**	**Description**
5	Common	The risk is almost certain to occur more than once within the next 12 months. (Probability = 100% p.a.)
4	Likely	The risk is almost certain to occur once within the next 12 months. (Probability = 75 – 100% p.a.)
3	Moderate	The risk could occur at least once in the next 2 – 3 years. (Probability = 50 – 75% p.a.)
2	Unlikely	The risk could occur at least once in the next 3 - 4 years. (Probability = 35 – 50% p.a.)
1	Rare	The risk will probably not occur, i.e. less than once in 5 years. (Probability = 0 – 35% p.a.)

Inherent risk exposure (impact x likelihood) and refer to risk mapping above:

Risk rating	Inherent risk magnitude	Response
15 – 25	High	Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk.
8 – 14	Medium	Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention required to achieve an acceptable level of residual risk.
1 – 7	Low	Mostly acceptable – Low level of control intervention required, if any.

7. Residual risk exposure (impact x likelihood) and refer to risk mapping above:

Risk rating	Residual risk magnitude	Response
15 – 25	High	Unacceptable level of residual risk – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation.
8 – 14	Medium	Unacceptable level of residual risk – Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or a more emphasis on proper implementation.
1 – 7	Low	Mostly acceptable level of residual risk – Requires minimal control improvements.

The qualitative criteria that will be used by MLM to assess likelihood are:

7.6.1. Geographical dispersion of operations;
7.6.2. Complexity of activities – management judgments;
7.6.3. Pressure to meet objectives;
7.6.4. Frequency of losses;
7.6.5. Competency, adequacy and integrity of personnel;
7.6.6. Degree of computerized systems;
7.6.7. Vague objectives;
7.6.8. Time constraints;
7.6.9. Potential of conflict of interest; and
7.6.10. Susceptibility of the asset to misappropriation.

5. RISK IDENTIFICATION AND PRIORITISATION

An event is an incident or occurrence emanating from internal or external sources that affects implementation of strategy or achievement of the Municipality's objectives. Events may have positive or negative impact, or both. Risk identification process guides management in prioritising and channeling the resource in managing the key risks to an acceptable level. The risks are prioritised depending on their inherent and residual risk exposure, where these can be classified as extreme, high, medium or low.

Event and risk identification involves a purposeful and systematic process to identify significant and emerging potential risks and opportunities linking to the achievement of the Municipality's goals and objectives. Risk identification process covers all risks affecting the Municipality either internally or externally.

The Municipality has adopted risk workshops and questionnaires as suitable risk identification techniques for its environment. The process is supplemented by the review and consideration of:

- External and internal audit reports;
- Internal and external environment;
- Financial analyses;
- Historical incidents / past events; and
- Actual losses;
- key performance indicators;
- Municipality's Risk Universe; and
- Best practices.

6. RISK EVALUATION AND ASSESSMENT

The Municipality's Risk Management policy stipulates that risk assessments should be conducted annually. The responsibility to ensure that periodic risk assessments are conducted within the Municipality rests with the Municipal Manager, the Executives and Management, who assist in creating an enabling environment.

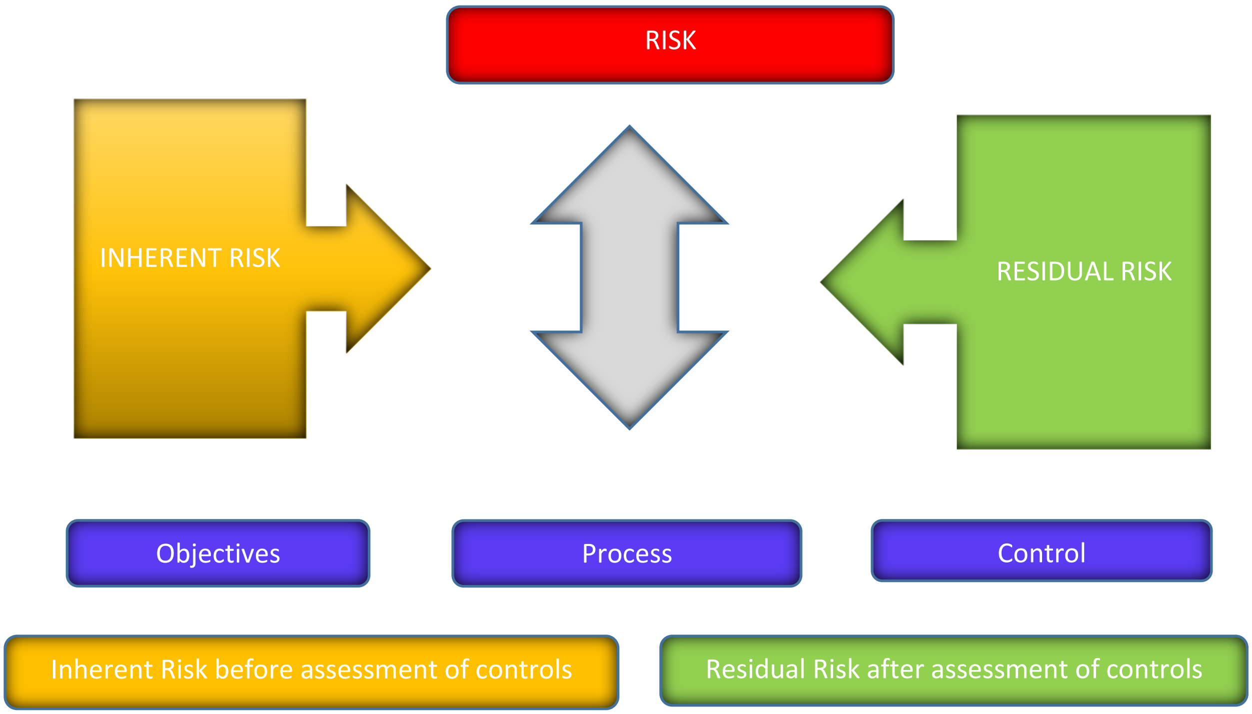
Risk evaluation and assessment is a systematic process to quantify or qualify the level of risk associated with a specific threat or event, to enrich the risk intelligence available to the Municipality. The main purpose of risk assessment is to assist management to prioritise the key risks.

Risk assessment is performed through facilitated risk workshops. Annual risk assessment requires review of risk management tool (register) identification of risks and emerging risks, and analysis of residual exposures based on likelihood of its occurrence and the associated risk impact (nature and extent).

Risks are assessed on the basis of the likelihood and the impact of its occurrence in the following stages:

a) Firstly, the inherent risk is assessed to establish the level of exposure in the absence of management strategies and controls to influence the risk;
b) Secondly, a residual risk assessment follows to determine the actual remaining level of risk after management strategies and controls are put in place to influence the exposure; and
c) Thirdly, the aggregated residual risk is benchmarked against Municipality's risk appetite and tolerance to determine the need for further management intervention, if any.

Overview of Risk Evaluation and Assessment Approach:



7. RISK APPETITE

Risk Appetite is the amount of risk that is accepted in pursuit of achieving objectives. MLM has adopted a quantitative approach in determining risk appetite, reflecting and balancing goals for growth, return and risk. Risk appetite is directly related to strategy. It is considered in strategy setting, where the desired return from strategy should be aligned with the risk appetite.

Defining a risk as acceptable does not imply that the risk is insignificant. The assessment should take into account of the degree of control over each risk, the cost impact, benefits and opportunities presented by the risk and the importance of the policy, project, function or activity.

Risk appetite is defined as the extent of willingness to take risks in the pursuit of the business objectives.

MLM may consider risk appetite qualitatively, with such categories as high, moderate or low, or they may take a quantitative approach, reflecting and balancing goals for capital expenditure, budgets and risk. MLM’s risk appetite guides resource allocation.

Management allocates resources across departments and functional areas within departments with consideration to MLM’s risk appetite and individual strategy for ensuring that expenditure remains within the budget of MLM and that the objectives are met. Management considers its risk appetite as it aligns its resources and designs infrastructure necessary to effectively respond to and monitor risks. Risk appetite:

9.1. Enables an improved consistency of decision making at all levels through improving risk understanding;
9.2. Provides a framework for knowingly taking risk within defined boundaries;
9.3. Improves the ability of the Audit & Risk Committee to challenge recommendations of management by providing a benchmark of what level of risk is defined as acceptable; and
9.4. Derives real value from the assessment of risk over and above compliance purposes.

The risk appetite decided upon should be formally considered as part of the setting of business strategy, with capital expenditure and other strategic decisions reviewed against it as they arise. As risk appetite is unlikely to be reduced to a single measurement, MLM needs to decide on the key measurements of risk that are best aligned to its business objectives and in most cases risk appetite will be defined by a mixture of quantitative and qualitative elements. The key determinants of risk appetite are as follows:

a) Expected performance;
b) The resources needed to support risk taking;
c) The culture of MLM;
d) Management experience along with risk and control management skills;
a) Longer term strategic priorities;

The formulation of the risk appetite is typically closely aligned to the strategic planning process and is also inclusive of budgeting, and as such is something that should be reviewed by management annually. The Audit & Risk Committee reviews the Strategic Business Plan of MLM and approves the operating objectives as being achievable, within the context of the level of risk acceptable to MLM as part of the annual strategy approval process.

MLM's risk appetite then represents the amount of risk MLM is willing to accept as it seeks to achieve its business objectives.

Risk appetite is communicated through the strategic and implementation plans at both organisational and operational levels. The Audit, Performance and Risk Committee and management will monitor the risk appetite of MLM relative to MLM’s actual results and communicate any actions required as a result. MLM reflects its Risk Appetite at an operational level through its Delegations of Authority to management.

These delegated limits are made in respect of both financial and non-financial matters, which are then further delegated within each department and functional area.
The following risk appetite diagnostics may be considered:

a) Cash flow;
b) Development events;
c) Clarity of strategy;
d) Risk-taking propensity of management;
e) Resources at risk;
f) Exposure to market forces; Investment in Information Technology; Stagnation corrections/interventions;
g) Customer orientation of service design; and
h) Internal and external rate of change.

8. RISK TOLERANCE

MLM's Risk Tolerance can be defined by reference to the following components:

8.1. Acceptable risks:

a) All personnel should be willing and able to take calculated risks to achieve their own and MLM's objectives and to benefit MLM. The associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.

b) Within the MLM, particular care is needed in taking any action which could:
   i. Impact on the reputation of MLM;
   ii. Impact on performance;
   iii. Undermine the independence and objective review of activities;
   iv. Result in fine by regulatory bodies and
   v. Result in financial loss

c) Any impact or opportunity which has a sizeable potential impact on any of the above should be examined, its exposures defined and it should be discussed with the appropriate line manager. Where there is significant potential and high likelihood of occurrence it should be referred to the risk committee.

8.2. Prohibited Risks:

a) MLM policies and guidelines and other control procedures are mandatory and must be complied with e.g. MFMA. Full compliance with these standards is required and confirmation of compliance will be sought in the MLM's annual report. Non-compliance with constitutes an unacceptable risk.

9. RISK ASSESSMENT APPROACH

a) STRATEGIC RISK ASSESSMENT PROCESS

The approach for strategic risk assessments is top-down, where strategic top risks for the Municipality are cascaded down to departmental and entities' strategic risk profiles. This enables the integration of the strategic risk assessment process to Municipality's annual strategic planning and budget planning cycles. Executives and Management is required to develop and implement mitigating actions in order to manage risk exposures to an acceptable level. Continuous monitoring on the process on implementation of action plans should be assessed and reported on a quarterly basis to Executives and Management via relevant committees within the Municipality.

The strategic risk assessment processes within the Municipality incorporates the following:

- The identification, evaluation and assessment of the Municipal Wide Top Strategic Risks;
- which may impact the achievement of the Municipality's Integrated Development Plan (IDP);
- The identification, evaluation and assessment of strategic risks of the Municipality's Game Changer programme, flagship program and Priority Implementation Program; and
- Establishment of risk profiles at departmental and entity levels.

b) OPERATIONAL RISK ASSESSMENT PROCESS

Operational risk assessment processes are conducted at all business units/ directorates within the Municipality, at departmental and entity levels. The process interlinks the identified departmental and entity strategic risks to business units/directorates. Management is required to develop and implement mitigating actions in order to manage risk exposures to and acceptable level. Continuous monitoring on the process of implementation of action plans should be assessed and reported on quarterly basis to Executives and Management.

c) PROJECT AND CONTRACTS RISK ASSESSEMENT PROCESS

A project risk assessment process is conducted for all significant projects and contracts within the Municipality. For long term projects, the project risk register is reviewed at least once a year to identify new and emerging risks. The risk identification process is conducted with the involvement of a particular project manager/leader. The project manager is required to develop and implement mitigating actions in order to manage risk exposures to and acceptable level. Continuous monitoring on the process of implementation of action plans should be assessed and reported quarterly to Executives and Management.

10. ROLES AND RESPONSIBILITIES

The Municipality's risk management oversight is the responsibility of the Council and Mayoral Committee. The Mayoral Committee is responsible through its sub-committees for recognising all significant and material risks to which the Municipality is exposed.

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

Risk management ownership and responsibility rests with Executives and Management whilst ultimate accountability vests with the Accounting Officer. The Accounting Officer should ensure that all strategic and key operational risks that have been identified within the Municipality are discussed and addressed at EXCO Meetings, and Extended Management Meetings.

The Risk Management Unit is responsible to provide guide and advisory to the Municipal Manager, the EXCO on effective implementation of Risk Management processes. However, Risk Management is the responsibility of all Municipal officials, regardless of level or grading.

The risk management responsibilities of various key role players are clearly stipulated on the table below:

Governance Structure	Roles/ responsibility
Council and Mayoral Committee	Oversight on the Municipal Wide risk management system, processes, risk profile. Accountability i.t.o MFMA, and assurance to stakeholders.
Council Section 80 Committee	Oversight over the sectoral risk profile and appropriate risk management strategies.
Audit Committee	Provides Assurance on Municipal-Wide ERM process and strategic and operational risk profiles.
Risk Management Committee	Provides oversight and advisory on Municipal-Wide ERM Framework, Policies, Process, Risk Profile and Group Risk Tolerance / Appetite.
Municipal Manager	• Accountability for development and implementation of ERM Governance, architecture and process in the Municipality and management of identified major risks. • Set the 'tone' at the top on risk management principles, processes and governance structures
Audit, Performance and Risk Committee	Committee is to support the Municipal Manager and EXCO in ensuring effective implementation of risk management processes to enhance the Municipality's ability to achieve its strategic objectives.
Business Units	Responsible to design a risk-controlled environment within day - to-day business operations, implement risk tracking model in order to address and manage identified risks to an acceptable level, the accountability is to regularly report to Senior Management on effective management of identified risks within business units.

Managing Director/ Chief Executive Officer () & Executive Directors	• Senior Management is accountable to the Council/Board for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities. • Accountability for implementation of ERM Framework, policy and processes. • Ensure that the risk register is in place and is continuously updated through regular risk assessments and updates to the control environment; and • Providing reports and comment to the Group Risk and Governance Committee as and when require. • Acknowledge the “ownership” of risks within their business units or functional areas, and all responsibilities associated with managing such risks; • Cascade risk management into its functional responsibilities; • Monitor risk management within their area of responsibility; • Maintains the business unit risk profile within the Municipality ‘s risk tolerance and risk appetite levels.
Risk and Audit Services	• Consulting and Advisory on ERM Framework, Policy, strategies & implementation throughout the Municipal-wide (Departments & Entities). ERM Strategy and maturity planning. Defining risk assessment methodology. • Provide specialist expertise to assist the Municipality to embed risk management and to leverage its benefits to enhance performance. • Provide advisory to management on determination of risk appetite and tolerance.
Risk and Audit Services	Facilitate implementation of the ERM Framework, Policy and process. Annual Risk Management Plans
Chief Internal Auditors & Internal Audit function	Assurance on risk management process Municipal wide (departments and ME’s); and reviewing effectiveness of risk mitigation controls and action plans.

11. RISK RESPONSE AND MITIGATION

Risk response is concerned with developing strategies to reduce and manage risk exposures. A proactive approach is generally adopted by determining mitigation actions / plans against risks identified. The Municipality endeavors to optimally control and manage potential threats and related risk exposures in such a manner that the exposures are reduced to an acceptable level, which is below risk appetite and tolerance levels / thresholds and to ensure that those threats or risk exposures do not materialise.

The Municipality has adopted the following risk response strategies using (4 T's) as based on best practice:

No	Response Strategy	Explanation of Strategy
1.	Terminate (Avoid)	Cease carrying out the activity because modifying it or controlling it would not reduce the risk to an acceptable level within the risk appetite or risk tolerance
2.	Tolerate (Accept)	The Municipality intends to accept the risk as it's tolerable within the existing business model and activities.
3.	Treat (Manage)	There are resources available that aims to manage and reduce the likelihood of the threat / risk exposure from materialising.
4.	Transfer (sharing)	risk is transferred to the third party who has more capacity to handle the exposure for example, by contracting out services, taking out insurance.

Other method that can be adopted as response strategy is Risk exploitation - Exploiting the risk factors by implementing strategies to take advantage of the opportunities presented by such risk factors.

In determining risk response, management should consider the following:

- Effects of potential responses on risk likelihood and impact – and which response options is effective for a particular risk.
- Costs versus benefits of potential responses.
- Possible opportunities to achieve Municipal objectives going beyond dealing with the specific risk.

In evaluating response options, Executives and management should consider that a response might affect the likelihood and impact of risks differently.

The Municipality is responsible for choosing a suitable strategy for dealing with a key risk. The implementation and eventual operation of this strategy is the responsibility of managers and must be within the above risk response strategies.

The decision on the nature and extent of risk mitigation controls is informed by the nature of the risk, the risk rating viz. extreme, high, medium or low; and the associated cost benefits. Considering the relative costs and benefits of alternative risk response options. Cost and benefit measurements for implementing risk responses are made with varying levels of precision.

All direct costs associated with instituting a response, and indirect costs practically measurable, should be considered. The Executives and Management should consider the opportunity costs associated with use of resources in responding to those identified risk exposures.

12. RISK MONITORING

The risk management committee must monitor the handling of key risks by program managers as in line with the charter. Key performance indicators must therefore be developed by the committee to facilitate the monitoring of each key risk.

13. 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 the risk owners. 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) Department;
b) Unit;
c) Objective;
d) Risk Description;
e) Risk factor/ Root Cause;
f) Consequences of risk;
g) Inherent risk rating;
h) Current Controls;
i) Residual risk rating;
j) Action to improve management of the risk;
k) Target date; and
l) Risk Owner.

For monitoring the following information should be included:

a) Progress on the implementation of the action plan;
b) Status; and
c) Reasons for not reaching the target date.

The risk management committee will report to the Municipal Manager as depicted in the risk management policy.

14. FRAUD MANAGEMENT

The Manager: Risk Management will develop a fraud prevention plan which will be reviewed by the risk management committee annually. The Municipal Manager will approve the fraud prevention plan of the Municipality. This fraud prevention plan will also cover the following:

14.1. Executive Summary by Municipal Manager;
14.2. Objective of the fraud prevention plan;
14.3. Definition of fraud that the Department subscribes to;
14.4. Fraud prevention and detection measures;
14.5. Fraud implementation plan;
14.6. Fraud indicators and warning signs;
14.7. Fraud risk management;
14.8. Fraud reporting and
14.9. Fraud response plan.

The plan should be submitted for review approval to the risk management committee and approval by the Municipal Manager.

15. ESTABLISHMENT OF RISK MANAGEMENT COMMITTEES

MLM will establish a risk management committee and be appointed in writing by the Municipal Manager.

It is recommended that the MLM establishes Fraud and Corruption Prevention Committees in line with the fraud and corruption prevention strategy or use the same committee members as Risk Management Committee members. This is because Risk Management includes but is not limited to minimising fraud, corruption and waste of government resources.

16. RESPONSIBILITIES OF THE AUDIT, PRFORMANCE AND RISK MANAGEMENT COMMITTEE

16.1. Responsibilities for enterprise risk management

The Audit, Performance and Risk Committee is responsible for the oversight of:

a) The total process of risk management, which includes a related system of internal control;
b) For forming its own opinion on the effectiveness of the process;

c) Providing monitoring, guidance and direction in respect of Enterprise Risk Management;
d) Ascertaining the status of enterprise risk management within MLM and providing oversight with regards to Enterprise Risk Management.
e) Identifying and fully appreciating the risk issues and key risk indicators affecting the ability of MLM to achieve its objectives;
f) Ensuring that appropriate systems are implemented to manage the identified risks, by measuring the risks in terms of impact and probability, together with proactively managing the mitigating actions to ensure that MLM's assets and reputation are suitably protected;
g) Ensuring that MLM's Enterprise Risk Management mechanisms provide it with an assessment of the most significant risks relative to strategy and objectives;
h) Considering input from the internal auditors, external auditors and subject matter specialists regarding Enterprise Risk Management;
i) Utilising resources as needed to conduct special investigations and having open and unrestricted communication with management, internal audit and the external auditors;
j) For disclosures in the annual report regarding Enterprise Risk Management;
k) Each member of the Audit & Risk Committee must understand his/her accountability for enterprise risk management within MLM.
l) Although the Audit & Risk Committee may choose to nominate one member of the committee as the coordinator of enterprise risk management reporting requirements, it is clear that all members have accountability for Enterprise Risk Management in MLM.

16.2. Providing stakeholder assurance

In providing stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored the Audit, Performance and Risk Committee must:

16.2.1. Receive credible and accurate information regarding the risk management processes within MLM in order to give the necessary assurance to stakeholders. The reports must provide an evaluation of the performance of risk management and internal control;
16.2.2. Ensure that the various processes of Enterprise Risk Management cover the entire spectrum of risks faced by MLM, the assurance process includes statements regarding the appropriateness of MLM's risk/ reward trade-off;
16.2.3. Provides stakeholders with the assurance that management has a pro-active approach to risk, it is vital that the management of risk is undertaken in a formalised manner.

16.3. Maintenance of the ERM policy

16.3.1. It is appreciated that stakeholders need to understand the Audit & Risk Committee' standpoint on risk.
16.3.2. The Audit & Risk Committee will therefore maintain MLM's formal risk management policy, which decrees MLM's approach to risk and underpins the development of MLM's Enterprise Risk Management processes.
16.3.3. The policy can be used as a reference point in matters of dispute and uncertainty.

16.4. Assessing reasonableness of risk tolerance levels

16.4.1. The Audit & Risk Committee will assess the reasonableness of MLM's levels of risk tolerance set by management.
16.4.2. Risk tolerance limits are vital, because they determine and influence the decision-making processes.
16.4.3. Tolerance levels are set in relation to stakeholder expectations.
16.4.4. Limits may be expressed in a number of ways according to the category of risk concerned.
16.4.5. The establishment of risk tolerance limits shapes the exception reporting processes.
16.4.6. Risk tolerance limits will be determined in accordance with the risk-taking propensity of MLM and the organisational culture of risk acceptability.
16.4.7. The outcomes of risk assessment processes will assist the Audit & Risk Committee in assessing the reasonableness of the risk tolerance limits.

16.5. Evaluating the effectiveness of the risk management process

16.5.1. The Audit & Risk Committee will facilitate the evaluation of the effectiveness of MLM's Enterprise Risk Management processes on an annual basis.
16.5.2. It is recognised that Enterprise Risk Management has evolved into a complex management discipline in its own right.
16.5.3. The Audit & Risk Committee' evaluation of risk management, therefore, will be supplemented by an independent review to be performed by National Treasury or other such nominated assurance provider.
16.5.4. The annual review will be undertaken by qualified persons, with the ability to review all aspects of risk management.
16.5.5. Management must ensure that sufficient independence is maintained in conducting the annual review.
16.5.6. Criteria for the evaluation must be established.
16.5.7. Assurance of the processes surrounding key risks must be given.

16.6. Confirming that the Enterprise Risk Management process is accurately aligned to the strategy and business objectives of MLM

16.6.1. The Audit & Risk Committee will ensure that the Enterprise Risk Management processes address risk in a balanced way, giving due attention to all types of risk.
16.6.2. The Audit & Risk Committee will evaluate whether appropriate resources are being applied to the management of the various categories of risk.
16.6.3. The Audit & Risk Committee will evaluate whether risk management processes are aligned to the strategic and business objectives of MLM.
16.6.4. A balanced perspective of risk and risk management is required in proportion to the weighting of potential risk impact across MLM.
16.6.5. The Audit & Risk Committee must ensure that a future-looking orientation is included in the consideration of risk.

17. RESPONSIBILITIES OF MUNICIPAL MANAGER

The Municipal Manager shall be responsible for the following:

17.1. Setting the tone at the top by supporting Enterprise Risk Management and allocating resources towards establishing the necessary structures and reporting lines within the institution to support Enterprise Risk Management (ERM),
17.2. Place the key risks at the forefront of the management agenda and devote attention to overseeing their effective management,
17.3. Approves the MLM's risk appetite and risk tolerance,
17.4. Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities,
17.5. Leverage the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management,
17.6. Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored,
17.7. Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

18. RESPONSIBILITIES OF MANAGEMENT

18.1. Integrating risk management into planning, monitoring and reporting processes, and the daily management of programs and activities,
18.2. Creating a culture where risk management is encouraged, practiced, rewarded and risk management infrastructure is provided.
18.3. Aligns the functional and institutional risk management methodologies and processes,
18.4. Acknowledges the "ownership" of risks within their functional areas and all responsibilities associated with managing such risks;
18.5. Assigning a manager to every key risk for appropriate mitigating action and to determine an action date;
18.6. Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
18.7. Maintains the functional risk profile within the institution's risk tolerance and appetite;
18.8. Provides reports on the functional risk management consistent with the institution's reporting protocols (including appearing before committees);
18.9. Implements the directives of the Accounting Officer concerning risk management;
18.10. Maintains a harmonious working relationship with the Manager: Risk Management and supports the Manager: Risk Management in matters concerning the functions risk management.

19. RESPONSIBILITIES OF INTERNAL AUDIT

The role of Internal Audit in corporate governance is defined by the South African Institute of Charted Accountants (SAICA) as follows: “to support the board and management in identifying and managing risks and thereby enabling them to manage the organization effectively”. This is achieved by:

a) Enhancing their understanding of risk management and the underlying concepts;
b) Assisting them to implement an effective risk management process, and
c) Providing objective feedback on the quality of organizational controls and performance.

The other role of internal audit is to provide assurance of the Municipality on the risk management process. These include:

a) Providing assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems around risk management;
b) Providing assurance over the Municipality’s risk identification and assessment processes;
c) Utilise the results of the risk assessment to develop long term and current year internal audit plans;
d) Provides independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the institution.

Providing assurance that management processes are adequate to identify and monitor significant risks:

a) Using the outputs of risk assessments to direct internal audit plans;
b) Providing ongoing evaluation of the risk management processes;
c) Providing objective confirmations, the Municipal Manager, Audit, Performance and Risk Committee receive the right quality of assurance and reliable information from management regarding risk;
d) Providing assurance regarding Enterprise Risk Management processes from both a design and functional perspective;
e) Providing assurance regarding the effective and efficiency of risk responses and related control activities; and
f) Further providing assurance as to the completeness and accuracy of Enterprise Management reporting.

20. RESPONSIBILITIES OF THE MANAGER: RISK MANAGEMENT

20.1. Develop risk management implementation plan of the Municipality;

20.2. Deciding on a methodology and framework for Enterprise Risk Management;

20.3. Undertaking a Gap analysis of the Municipality's Enterprise Risk Management process at regular intervals;

20.4. Performing reviews of the risk management process to improve the existing process;

20.5. Developing systems to facilitate risk monitoring and risk improvement;

20.6. Ensuring that all risk categories are included in the risk management;

20.7. Ensuring that key risk indicators are included in the risk register;

20.8. Aligning the risk identification process with MLM's business objective;

20.9. Obtain agreement on a system of risk qualification;

20.10. Identifying relevant legal and regulatory compliance requirements;

20.11. Compiling a consolidated risk register on an annual basis;

20.12. Costing and quantifying actual non-compliance incidences and losses incurred and formally reporting thereon;

20.13. Creating mechanisms for identifying modes of change;

20.14. Consolidating all information pertaining to all risk related functions, processes and activities;

20.15. Transferring the knowledge in respect of an effective and sustainable process of risk identification, quantification and monitoring to management;

20.16. Recording the decisions regarding mitigation for every key risk facing MLM in the risk register;

20.17. Deciding upon central solutions for common risks and for risks where central facilities are available;

20.18. Works with senior management to develop the overall enterprise risk management vision, strategy, policy, as well as risk appetite and tolerance levels for approval by the Accounting Officer;

20.19. Communicates the risk management policy, strategy and implementation plan to all stakeholders in the institution;

20.20. Continuously driving the risk management process towards best practice;

Developing a common risk assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Accounting Officer:

a) Coordinating risk assessments within the Municipality / directorate / sub-directorate as outlined in the policy;
b) Ensuring that risk management training is conducted at appropriate levels within the Municipality to inculcate a risk management culture;
c) Implementing formalized risk information system;
d) Sensitizing management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, Municipality's restructuring and similar events, and

assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously;

e) Assisting management in developing and implementing risk responses for each identified material risk;
f) Participating in the development of the combined assurance plan for the institution, together with internal audit and management;
g) Liaising closely with internal audit to advise a risk auditing programme, based on the information reflected in the risk registers;
h) Benchmarking the performance of the risk management process to the risk management processes adopted by other public entities within South Africa;
i) Assisting in compiling risk registers for all functional areas at strategic, operational and project level;
j) Communicating the risk framework and methodology to all management levels and to employees;
k) Ensuring that the necessary risk management documentation is developed in respect of the risk management process;
l) Enabling the Audit & Risk committee to fulfil its responsibilities with regards to risk management;
m) Communicating and managing the establishment and ongoing maintenance of enterprise risk management pursuant to MLM's risk management vision;
n) Ensuring proper risk management ownership by responsible managers;
o) Validating that enterprise risk management is functioning in all functional areas and that all significant risks are being recognized and effectively managed on a timely manner;
p) Communicating with the Audit, Performance and Risk Committee regarding the status of Enterprise Risk Management;
q) Developing integrated procedures to report major risks;
r) Developing a standardized risk information model and automated process and ensuring it is usable across MLM;
s) Maintaining a cost-benefit focus on Enterprise Risk Management;
t) Working with management to ensure business plans (business proposals) and budgets include risk identification and management;
u) Ensuring effective information systems exist to facilitate overall risk management improvement within the institution;
v) Collates and consolidates the results of the various assessments within the institution;

Analyze the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends:

a) Compiles the necessary reports to the Risk Management Committee;

b) Formally reviewing the occupational health, safety and environmental policies and practices;

c) Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans occupational health, safety and environmental policies and practices and disaster management plans;

d) Report administratively to Accounting Officer and functionally to Risk Management Committee.

21. ROLES OF ALL OFFICIALS

Each official will be responsible for:

21.1. Reporting any risk to his/her immediate supervisor on a timely basis;
21.2. Ensuring that proper and sound system of the internal controls is appropriately maintained to ensure that all risks identified are alleviated to tolerable levels through risk mitigation plan approved by Municipal Manager;
21.3. Adhering to the code of conduct for the institution;
21.4. Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility;
21.5. Providing information and cooperation with other role players;
21.6. Participation in risk identification and risk assessment within their business unit;
21.7. Implementation of risk responses to address the identified risks.

22. ROLE OF RISK CHAMPIONS

22.1. Appointment of the champions;
22.2. Ensure that divisions are effectively implementing the Risk Management Strategy;
22.3. Identify and report fraudulent activities within their Unit;
22.4. Conduct preliminary inquiry on any alleged incident that is on conflict with the Code of Conduct for the Public Service and draft a report for the investigators;
22.5. Provide support on investigations by facilitating the obtaining of information in any form [electronic, documentary, etc.] by investigators, in line with the applicable regulations;
22.6. Be a point of entry for investigators and risk management officials within their respective units.

23. DISCLOSURE

In order for risk management to work, it must be embedded into everyday activities of the MLM. 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 process of managers in strategic planning meetings of the MLM that are held on a quarterly basis.

Every manager shall on a quarterly basis and during the strategic planning meetings of MLM disclose that:

a) 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.
b) there is an on-going process for identifying, evaluating and managing the significant risks faced by the directorate concerned.
c) 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.
d) 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.
e) that the directorate complies with the process in place, established to review the system of internal control for effectiveness and efficiency.

Where the Municipal Manager cannot make any of the disclosures set out above, he should state this fact and provide a suitable explanation.

24. INTEGRATING RISK MANAGEMENT PLANNING PROCESS

The developed risk management planning process includes a sequence of activities that will occur every year. The risk management planning process is a limited but focused set of strategic objectives that inform the risk management planning process. The planning process links risk management with the day-to-day activities of Units within MLM.

25. CONCLUSION

Risk Management is a powerful management tool to deal with uncertainties in the environment, and to establish preventative mechanism to enhance service delivery, while narrowing the scope of corruption, misconduct and unethical professional behavior.

It is also an effective decision-making tool, to assist management to take the correct decisions in an uncertain environment. The development of a culture of risk management and specific procedures for implementation will assist public servants to focus on risk analysis and response. This will improve the quality of strategic plans, which will assume both predictive and preventative dimensions.
To this end, the MLM takes full responsibility to ensure that implementation of risk management takes place in all directorates.

Prepared by the Manager: Risk Management:

Signature : ________________________

Date : ________________________

Reviewed by the Senior Manager: Strategic Support Services:

Signature : ________________________

Date : ________________________

Recommended by the Municipal Manager:

Signature : ________________________

Date : ________________________

Recommended by the Audit and Performance Committee:

Signature : ________________________

Date : ________________________

Approved by the Municipal Council:

COUNCIL RESOLUTION NUMBER: ________________________