

# **ELIAS MOTSOLEDI LOCAL MUNICIPALITY**



## **RISK MANAGEMENT STRATEGY**

**2017/18**

## Table of Contents

1. Introduction.....	3
2. Definitions .....	3
3. Purpose .....	4
4. Legislative Framework.....	5
5. Governance .....	5
5.1 Cooperate Governance .....	5
5.2. Bathopele Principles .....	6
6. Risk management Process Framework.....	6
7. Internal Environment.....	8
7.1 Risk management Philosophy .....	8
7.2 Enterprise Risk Management Policy.....	
7.3 Fraud Risk Management Policy.....	
7.4 Risk Appetite.....	9
7.5 Risk Tolerance .....	14
8. Structural Configurations .....	15
9. Accountability, Roles and Responsibilities .....	16
10. Risk management guidelines .....	23
10.1 Risk identification.....	23
10.2 Risk assessment.....	20
10.3 Risk Response.....	27
10.3.1 Responding to risk .....	27
10.3.2 Control Activities to mitigate risks.....	29
11. Communication and reporting .....	29
12. Risk assurance .....	30

## **1. Introduction**

Elias Motsoaledi Local Municipality provides basic services to all that lives and operates within its jurisdiction in a continually changing environment. As such the potential for disruption to services or the loss of opportunities or damage to assets from a wide range of risks is inherent. It is therefore essential that the municipality takes appropriate action to minimize the potential for loss or damage through active risk management.

Risk Management is the process of identifying significant risks to the achievement of the organizations strategic and operational objectives, evaluating their potential consequences and implementing the most effective way of controlling them.

This means that Elias Motsoaledi Local Municipality must ensure that the process of risk management receives special attention throughout the organization and that all levels of management know, understand and comply with the Risk management strategy document.

### **Definitions**

Risk is defined as *“the uncertainty of an event occurring that could have an impact on achievement of objectives. Risk is measured in terms of consequences and likelihood”*

ERM deals with risks and opportunities affecting value creation or preservation and is defined as follows:

Enterprise Risk Management (ERM) is the application of risk management throughout the institution rather than only in selected business areas or disciplines. ERM recognizes that risks including opportunities are dynamic, often highly interdependent and ought not to be considered

and managed in isolation. ERM responds to this challenge by providing a methodology for managing institution wide risks in a comprehensive and integrated way.

## **1. Purpose**

The purpose of Risk management strategy is to outline a high level plan on how the municipality will implement its risk management policy. The risk management policy is designed to safeguard the achievement of the municipality's objectives through the effective control of risks, which threaten their achievement and taking advantage of the opportunities that may arise.

In addition the Risk Management objective is to assist the municipality:

- i. To avoid certain adverse outcomes through taking proactive steps
- ii. To ensure that opportunities are identified and exploited
- iii. Cope when actual incidents to occur
- iv. To identify and respond to changing social, environmental and legislative requirements
- v. To align risk appetite and strategy
- vi. To enhance risk response decisions
- vii. To reduce operational surprises and losses
- viii. To prevent injury, damage and loss to stakeholders and employees or their property.
- ix. To integrate risk management into the organizational culture of the municipality
- x. To support staff in their efforts to manage the risks to which they are exposed.
- xi. To ensure compliance with the King 111 Code of Corporate Governance

The Enterprise Risk Management strategy specifically addresses the structures, processes and standards implemented to manage risks on an enterprise-wide basis in a consistent manner. The strategy further addresses the specific responsibilities and accountabilities for the Enterprise Risk Management process and the reporting of risks and incidences at various levels within Elias Motsoaledi Local Municipality.

## **2. Legislative Framework**

Legalizing risk management framework in public sector is in itself a macro risk management strategy of government towards ensuring the achievement of national goals and objectives. The Municipal Finance Management Act (Act 56 of 2003) (MFMA) provides in section 62(1) (c) that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems –

- (i) of financial and risk management and internal control; and

The extension of general responsibilities in terms of section 78 of the MFMA to all senior managers and other officials of the municipalities imply that the responsibility for risk management vests at all levels of management and that it is not limited to only the accounting officer and internal audit

Section 2110 of the International standards for the Professional Practice of Internal Auditing states in that, internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

## **4 Governance**

### **4.1 Cooperate Governance**

The municipality adheres to the principles espoused in the King 111 report on corporate governance. King 111 provides the following principles on governance of risk:

- I. that the board should be responsible for the governance of risk
- II. the board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks

- III. the board should ensure that management considers and implements appropriate risk responses
- IV. the board should ensure continual risk monitoring by management
- V. the board should receive assurance regarding the effectiveness of the risk management process
- VI. the board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders

#### **4.2 The King III Code**

King III report on Corporate Governance also reflects on risk management as an integral part of strategic and operational activities; and it therefore became necessary in order to improve corporate governance in the municipality. The approved Enterprise Risk Management Strategy should address the requirements of the King III Code.

#### **4.3 Batho Pele Principles**

Through the Batho Pele principles of 1997, government aims to instill a culture of accountability and caring public servants. The connection between Batho Pele and risk management is that risk management is an instrument to support the achievement of performance and service delivery excellence as espoused by Batho Pele.

### **5 Risk management Process Framework**

In carrying out Enterprise Risk Management the municipality adopts the Public Sector Enterprise Risk Management Framework. This framework provides a structured approach to identifying and managing risk within preset risk appetite and tolerance levels. The key components of the framework are depicted in the diagram below and brief explanation of each is provided.

### **Internal Environment**

The internal encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity's people, including 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 events affecting their achievement. ERM ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with the risk appetite.

### **Risk Identification**

Internal and external events affecting achievement of an entity's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channelled 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 entity's risk tolerance 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 time frame that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across and up the entity.

### **Monitoring**

The entirety of ERM is monitored and modification made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations or both.

## **6 Internal Environment**

### **6.1 Risk management Philosophy**

All staff members are expected to demonstrate appropriate standards of behaviour in development of strategy and pursuit of objectives. The philosophy is supported by the following guidelines. Management and staff shall:

- i. Consider all forms of risk in decision making
- ii. Create and evaluate Sub Department, Branch and business unit risk profile to consider what's best for their individual units and what's best for the municipality as a whole.
- iii. Support Executive Management's creation of a municipality level portfolio view of risk.
- iv. Retain ownership and accountability for risk and risk management at the business unit or other point of influence level. Risk management does not defer accountability to others.
- v. Strive to achieve best practices in enterprise risk management.



- vi. Monitor compliance with policies and procedures and the state of enterprise risk management.
- vii. Leverage existing risk management practices, wherever they exist within the municipality
- viii. Document and report all significant risks and enterprise risk management deficiencies.
- ix. Accept that enterprise risk management is mandatory, not optional.
- x. Recognize that risk management is the responsibility of everyone in the municipality and shall be part of every employee's job description.

## **7.1 Enterprise Risk Management Policy**

### **Enterprise Risk Management Policy**

The Accounting Officer has committed Elias Motsoaledi Local Municipality to a process of risk management that is aligned to the principles of good corporate governance, as supported by the **Municipal Finance Management Act (MFMA), Act no 56 of 2003.**

As Elias Motsoaledi Local Municipality we are committed to the optimal management of risk in order to achieve our vision, our principal tasks and key objectives and protect our core values.

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

All risk management efforts will be focused on supporting Elias Motsoaledi Local Municipality's objectives. Equally, they must ensure compliance with relevant legislation, and fulfil the expectations of employees, communities and other stakeholders in terms of corporate governance.

Effective risk management is imperative to Elias Motsoaledi Local Municipality to fulfill its mandate, the service delivery expectations of the public and the performance expectations within the Institution.

The realization of our strategic plan depends on us being able to take calculated risks in a way that does not jeopardize the direct interests of stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our service delivery environment, as well as take informed decisions under conditions of uncertainty.

We subscribe to the fundamental principles that all resources will be applied economically to ensure:

1. The highest standards of service delivery;
2. A management system containing the appropriate elements aimed at minimizing risks and costs in the interest of all stakeholders;
3. Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and
4. Maintaining an environment, this promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction. An entity-wide approach to risk management will be adopted by Elias Motsoaledi Local Municipality, which means that

every key risk Elias Motsoaledi Local Municipality will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into Elias Motsoaledi Local Municipality's systems and processes, ensuring that our responses to risk remain current and dynamic. All risk management efforts will be focused on supporting Elias Motsoaledi Local Municipality's objectives. Equally, they must ensure compliance with relevant legislation, and fulfill the expectations of employees, communities and other stakeholders in terms of corporate governance.

The risk policy statement shall be reviewed annually to reflect the current stance on risk management.

**Every employee has a part to play in this important endeavor and we look forward to working with you in achieving these aims.**

## **7.2 Fraud Risk Management Policy**

### **Fraud Risk Management Policy**

The Accounting Authority / Officer have committed Elias Motsoaledi Local Municipality to a process of fraud risk management that is aligned to the principles of the **Municipal Finance Management Act (MFMA), Act no 56 of 2003**.

As instances of fraud remain a constant threat to public trust and confidence, it becomes essential to recognize fraud risk management as an integral part of strategic management and the Institution is therefore adopting a comprehensive approach to the management of fraud risks. Management's agenda is to focus on efforts to:

- i. Understand the fraud risks that can undermine the institution's business objectives;
- ii. Determine whether fraud prevention programmes and controls are actually effective in reducing instances of fraud;
- iii. Gain insight into better ways of designing and evaluating controls to prevent, detect and respond appropriately to fraud;
- iv. Reduce exposure to liability, sanctions and litigation that may arise from violations of law or stakeholder expectations;
- v. Derive practical value from the development of a sustainable process of managing fraud risk and improving performance; and
- vi. Achieve the highest levels of business integrity through sound corporate governance, internal control and transparency.

The features of this process are outlined in the Institution's Fraud Risk Management Strategy. It is expected that all personnel will adhere to the fraud risk management strategy. It is the intention that individual personnel, as well as business units will work together in a consistent and integrated manner, with the overall objective of reducing fraud risk. Effective fraud risk management is imperative to the Institution to fulfill its mandate, the service delivery expectations of the public and the performance expectations within the Institution.

The realization of our strategic plan depends on us being able to take calculated business risks in a way that does not jeopardize the interests of stakeholders.

We subscribe to the fundamental principles that all resources will be applied economically to ensure:

1. The highest standards of service delivery;

2. A management system containing the appropriate elements aimed at minimising fraud risks and related costs in the interest of all stakeholders;
3. Maintaining an environment, this promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.

Fraud undermines the abovementioned principles.

An entity-wide approach to fraud risk management will be adopted by the Institution, which means that every key fraud risk in each part of the Institution will be included in a structured and systematic process of fraud risk management. It is expected that the fraud risk management processes will become embedded in the Institution's systems and processes, ensuring that our responses to fraud risk remain current and dynamic. All fraud risk management efforts will be focused on supporting the Institution's objectives. Equally, they must ensure compliance with relevant legislation, and fulfill the expectations of employees, communities and other stakeholders in terms of corporate governance.

**Every employee has a part to play in this important endeavor and we look forward to working with you in achieving these aims.**

### **7.3 Risk Appetite**

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

Council undertakes it will unavoidably have a variable appetite to risk in different areas. Decisions will depend on the context, on the nature of the potential losses or gains, and the extent to which information regarding the risks is complete, reliable and relevant.

Risk appetite for council is as follows:

- i. Council has no appetite for risk which may have a significant negative impact on the municipality's ability to provide basic services to the community
- ii. Council has no appetite for risks that may have significant negative impact on municipality's long term financial sustainability
- iii. Council does not have appetite may compromise safety and welfare of the environment and the community
- iv. Council has an appetite for risks that improve efficiency, reduces costs or improves efficiency
- v. Council has an appetite for risks that improves economic development within the municipal jurisdiction

#### **7.4 Risk Tolerance**

Risk tolerance is based on the municipality's financial strength and its ability to withstand shocks.

The risk tolerance of the organization is as follows:

<b>Quantitative Indicator</b>	<b>Qualitative Indicator</b>	<b>Response option</b>
20 – 25	Catastrophic	The risk should be avoided or action should be taken to mitigate the risk to an acceptable level or
16 – 20	Major	The risk should be exploited and/or mitigated
12 – 16	Moderate	Action should be taken to reduce risk, and kept on the register for senior management monitoring
8 – 12	Minor	Acceptable risk but continue to monitor

	Not Significant	No action should be taken or remove from the register
--	-----------------	---

## 7 Structural Configurations

### Risk management structure

All officials in the municipality are responsible for risk management to ensure achievement of the objective. The structures through which risk management will be reported are set out below:

Structure	Responsibility of Accountability	Frequency of reporting
Municipal Council	Public	Quarterly
Audit committee	Council	Quarterly
Risk management committee	Audit Committee; Accounting officer	Quarterly
Accounting Officer	Executive committee of council	Quarterly
Internal audit	Audit committee	Quarterly
Chief Risk Officer (CRO)	Accounting Officer	Monthly
Head of Departments (Sec 57)	Accounting Officer	Monthly
	Risk Management Committee	Quarterly
All other officials	Relevant supervisor/head of department	Monthly

### Reporting Requirements

The audit committee shall provide council with its assessment of the effectiveness management's systems on risk management.

The accounting officer shall report on a quarterly basis to council on the process and system put in place to controlling risks to an acceptable level.

Each department through its head is required to submit the report to the accounting officer on a monthly basis and to the risk management committee on a quarterly basis on new risks or opportunities emerging and how they will be managed. The report should include actions taken to mitigate risks that have been earlier identified and documented.

The Manager: Risk Management (CRO) will assist in the execution of the risk reporting process.

## **8 Accountability, Roles and Responsibilities**

- i. All employees Elias Motsoaledi Local Municipality have some responsibility for Enterprise Risk Management.
- ii. The Municipal Manager is ultimately responsible for Enterprise Risk Management and should assume overall ownership.
- iii. The Directors and managers support the risk management philosophy, promote compliance with the risk appetite and manage risks within their spheres of responsibility consistent with risk tolerances.
- iv. Other personnel are responsible for executing Enterprise Risk Management in accordance with established directives and protocols.
- v. The Risk Management Committee provides important Enterprise Risk Management oversight.

To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies and techniques.

### **Municipal Council**

The Municipal Council has an oversight role over the institution's portfolio view of risk and considers it against the risk tolerance of a municipality. The Municipal Council shall obtain



assurance that key risks inherent in the Institution's strategies were identified and assessed, and are being properly managed.

Municipal Council of a municipality or municipal entity shall also:

- Assist the Accounting Officer to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence.
- Approve the risk management policy, strategy and implementation plan; and
- Approve the fraud prevention policy, strategy and implementation plan.
- Ensuring that the Institutional strategies are aligned to its government mandate;
- Obtaining assurance from management that the municipal's strategic choices were based on rigorous assessment of risk.

### **Internal Audit**

Internal Audit is administratively accountable to the Accounting officer and functionally to the audit committee for providing independent assurance on the adeffectiveness of the municipality's system of risk management. Internal Auditing may perform advisory and consulting engagements on risk management in line with the International Standards of Professional Practice in Internal Auditing.

Responsibilities of Internal Auditing in risk management include:

- i. Providing assurance that the risk management culture in the Institution is an appropriate one;
- ii. Providing assurance that the risk register is an appropriate reflection of the risks facing the Institution;
- iii. Providing assurance that risk management is carried out in a manner that benefits the Institution; and

- iv. Providing assurance that the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the Institution.

#### **Accounting Officer/Municipal Manager**

In terms of the MFMA, the accounting officer is ultimately responsible for risk management within the municipality. The Accounting officer is accountable to the Municipal Council regarding the effectiveness of the risk management process.

The Accounting Officer shall be responsible developing the systems, policies and procedures to ensure that the municipality operates in conducive control environment where overall attitude, awareness and actions of the municipal officials and management regarding internal control and their importance to the municipality is at par with the vision, values, and culture of the municipality.

The Municipal Manager responsibilities include ensuring that all components of enterprise risk management are in place.

#### **Audit Committee**

The responsibilities of the Audit Committee towards the risk management shall be formally described in its charter. The Audit Committee is responsible for oversight on the municipality's control, governance and risk management. The committee shall provide an independent and objective view on the effectiveness of risk management to the Accounting officer and the Municipal Council.

#### **Chief Risk Officer (CRO)**

The role of the CRO is to develop, communicate, coordinate and monitor the enterprise/municipal-wide risk management activities within Elias Motsoaledi Local Municipality.

The Chief Risk Officer shall be accountable to the Accounting officer. The Chief Risk Officer tasked with the overall efficiency of enterprise risk management working with the senior management to ensure a risk aware culture and that the risk management practices are embedded in the municipality.

The following are the responsibilities of the Chief Risk Officer:

- i. Assists the Audit / Risk Committee to fulfill its responsibilities in terms of its charter;
- ii. Communicates with the Audit / Risk Committee regarding the status of enterprise wide risk management;
- iii. Takes overall responsibility for the common risk framework and coordinates the risk management activities across the Municipality;
- iv. Proposes on a methodology and framework for ERM for approval by the Council and Municipal Manager;
- v. Undertakes a gap analysis of the Municipality's ERM process;
- vi. Performs reviews of the risk management process to improve the existing process;
- vii. Facilitates quarterly risk management assessments and risk assessments for all major changes and incidents, such as accidents, purchases of capital equipment, restructuring of operational processes etc;
- viii. Develops systems to facilitate risk monitoring and risk improvement;
- ix. Ensures that all risk categories are included in the assessment;
- x. Ensures that key risk indicators are included in the risk register;

- xi. Aligns the risk identification process with the Municipality's strategic objectives and integrated development plan;
- xii. Agrees on a system of risk quantification;
- xiii. Compiles a consolidated risk register on a quarterly basis;

### **Other personnel**

Other officials are accountable to their management for implementing and monitoring the process of risk management and integrating it into day to day activities. The responsibility includes:

- i. Application of risk management processes in their respective function
- ii. Inform supervisors of new risks and significant changes in the known risks

### **Risk champions/coordinators**

Risk champions act as a change agent in the risk management process and are distinguished from risk owners in that they assist the risk owners to resolve risk related problems. A risk champion should have a good understanding of the risk management concept, principles and processes.

Responsibilities of the Risk Management Coordinators include amongst others:

- i. The Risk Management Coordinator will assist the Manager : Risk Management with updating of risk reporting information; and
- ii. The Risk Management Coordinators will be the key contact of the Manager: Risk Management at each Sub- Unit

In addition establishment of an Operational Risk management committee which composes of all risk champions

### **Management**

Management is accountable to the Accounting officer/Municipal Manager for designing, implementing and monitoring risk management and integrating it to day to day activities.

Empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;

- i. aligning the functional risk management methodologies and processes with the Institutional process;
- ii. devoting personal attention to overseeing the management of key risks within their area of responsibility;
- iii. maintaining a co-operative relationship with the Risk Management Unit and Risk Champion
- iv. providing risk management reports;
- v. presenting to the Risk Management and Audit Committees as requested;
- vi. maintaining the proper functioning of the control environment within their area of responsibility;
- vii. monitoring risk management within their area of responsibility;
- viii. Holding officials accountable for their specific risk management responsibilities.
- ix. Maintaining the functional risk profile within the Institution's risk tolerance (ability to tolerate) and appetite (risk that it is willing to take);
- x. implementing the directives of the Accounting Officer concerning risk management;
- xi. prioritizing and ranking risks in their area of responsibility to focus responses and interventions on risks outside the Institution's tolerance levels;
- xii. benchmarking risk and risk mitigation activities;
- xiii. assessing the effectiveness of risk management within area of responsibility; and
- xiv. Developing and implementing a fraud risk response plan.

The risk management reports submitted by Management to the Risk Management Committee or Audit Committee include:

- i. Non-compliance risks with key laws and regulations;
- ii. Fraud related risks;
- iii. Risks associated with the breakdown in key internal controls;
- iv. Review of business continuity and disaster recovery plans;
- v. New risks that emerged during the reporting period; and
- vi. Significant changes in current risk or risks that materialized during the reporting period

#### **Risk management Committee**

Risk management committee shall be appointed by the Accounting Officer/Municipal Manager and its role is to formulate, promote and review ERM objectives, strategy and policy and monitor the process at strategic, management and operational levels.

The Risk committee is responsible for the oversight of:

- i. The total process of risk management, which includes a related system of internal control;
- ii. For forming its own opinion on the effectiveness of the risk management process;
- iii. Providing monitoring, guidance and direction in respect of Enterprise Risk Management;
- iv. Ascertaining the status of enterprise risk management and providing oversight with regards to Enterprise Risk Management.
- v. Identifying and fully appreciating the risk issues and key risk indicators affecting the ability of the municipality to achieve its objectives;

- vi. 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 SPM's assets and reputation are suitably protected;
- vii. Considering input from the internal auditors, external auditors and subject matter specialists regarding Enterprise Risk Management;
- viii. Disclosing in the annual report matters regarding Enterprise Risk Management;

## **9 Risk management guidelines**

At least once a year a municipality shall undertake a thorough assessment of its risks at all levels using the following methodology.

### **10.1 Risk identification**

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 risk identification process shall cover all risks, regardless of whether or not such risks are within the direct control of the municipality.

The following documents/information shall be reviewed during the risk identification process:

- i. The annual and oversight reports of the municipality
- ii. The Integrated Development Plan
- iii. Service delivery and implementation plan

- iv. The external and internal audit reports
- v. Changes in the municipal related legislation
- vi. Assessments provided by the other stakeholders ( Treasury, COGTA and other stakeholder departments and entities)

The municipality shall identify strategic risks prior finalization of the strategic choices to ensure that potential risk issues are factored into the decision making process for selecting the strategic options.

Operational risk identification shall seek to establish vulnerabilities introduced by employees, internal processes and systems contractors, regulatory authorities and external events.

Project risks shall be identified for all major projects, covering the whole lifecycle; and for long term projects. The project risk register should be reviewed at least once a year to identify new and emerging risks. Projects should meet set criteria to qualify as major project.

All projects with an estimated cost of R1, 000, 000 shall be deemed major projects regardless of their complexity.

The criterion for identifying major projects is as follows:

#### Council requirements

- i. Intensity of use
- ii. Reputation criticality
- iii. National priority
- iv. Basic service

#### Regulatory Risk

- i. Safety criticality



- ii. Environment criticality

#### Design and Construction risk

- i. Cost of build
- ii. Key technology usage
- iii. Design complexity

Each of the above criteria will be scored to indicate the most likely value. The higher the risk or level of uncertainty the higher the score. The Project Manager shall undertake the assessment with the support from specialist and key stakeholders. The final decision shall be with the accounting officer.

## 10.2 Risk assessment

Once risks have been identified they need to be assessed in terms of their likelihood of the risk occurring and the potential impact on the municipality should the risk occur. Risk assessment shall involve interrogating risks at two levels, namely at the inherent risk level and the residual risk level, using the same rating criteria for each assessment. The risk assessment shall produce management's perspective of the effectiveness of the existing controls.

Inherent risk considers the likelihood and impact of the risk in the absence of any management control interventions. Residual risk is the level of risk remaining after the mitigating influence of the existing control interventions is considered. The residual risk shall be benchmarked with the municipality's risk appetite to determine the need for further management intervention.

Risks shall be assessed on both the qualitative and quantitative basis.

The rating criterion for both likelihood and impact shall be as follows:

### Impact

Rating	Assessment	Definition
--------	------------	------------

0-1	Not significant	Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives
2- 3	Minor	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives
4- 5	Moderate	Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives
6- 7	Major	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives
8- 9	Catastrophic	Negative outcomes or missed opportunities that are of critical importance to the achievement of the objectives

#### Likelihood

Rating	Assessment	Definition
0- 1	Rare	The risk is conceivable but is only likely to occur in extreme circumstances
2- 3	Unlikely	The risk occurs infrequently and is unlikely to occur within the next 3 years
4- 5	Possible	There is an above average chance that the risk will occur at least once in the next 3 years
6- 7	Likely	The risk could easily occur, and is likely to occur at least once within the next 12 months

8- 9	Almost Certain	The risk is already occurring, or is likely to occur more than once within the next 12 months
------	-------------------	---

### **Management perspective of the existence of the current controls**

Current controls in place shall be assessed based on their design effectiveness and operational effectiveness.

The criterion for assessment of the current controls shall be as follows:

<b>Rating</b>	<b>Effectiveness category</b>	<b>Category definition</b>
<b>20%</b>	Excellent	Risk exposure is effectively controlled and managed
<b>40%</b>	Good	Majority of risk exposure is effectively controlled and managed
<b>75%</b>	Fair	There is room for some improvement
<b>90%</b>	Poor	Control measures are ineffective

Based on the assessment of the current controls management shall determine whether the residual risk is mitigated to an acceptable level is mitigated to an acceptable level within the risk tolerance of the municipality.

## **10.3 Risk Response**

### **10.3.1 Responding to risk**

Management shall develop response strategies for all material risks, whether or not the management thereof is within the direct control of the municipality, prioritizing the risks exceeding or nearing the risk appetite level. All key risk identified should be responded to however not all these risk will require treatment. The risks that fall outside of the municipality's risk tolerance levels are those which pose a significant potential impact on the ability of the institution to achieve set objectives and therefore require treatment. The management shall decide to accept the risk,

mitigate the risk, transfer the risk, exploit the risk or avoid the risk altogether as indicated in the below diagram.



Once risks have been assessed and a level of risk rating has been assigned, an option for response is selected. There are four potential scenarios' that could lead to different response options:

Scenario's	Response Option
a) High Likelihood and High Impact	Avoid/Mitigate
b) High Likelihood and Low Impact	Exploit/Mitigate
c) Low Likelihood and High Impact	Transfer (e.g. Insurance)
d) Low Likelihood and Low Impact	Accept

Consideration should be given to the cost of the response option as compared to the likely risk reduction that will result.

Risk owners nominated by executive management should assume responsibility for developing effective risk response plans. The risk owner can delegate responsibility (but not accountability) to his/her direct reports or consultants for detailed plan development and implementation.

### **10.3.2 Control Activities to mitigate risks**

Management is responsible for developing the internal control framework that ensures that the municipality's structure and systems support its policies, plans and objectives, and that it operates within laws and regulations. It should also ensure that policies and objectives are implemented in an efficient and effective manner.

All officials and council in the municipality have the responsibility for maintaining effective systems of internal controls, consistent with their delegated authority.

## **10 Communication and reporting**

Continuous monitoring needs to occur to ensure that the desired response strategy for a risk is implemented successfully. Relevant information, properly and promptly communicated is essential to equip the relevant officials to identify, assess and respond to risks. The municipality's risk communication and reporting process should support enhanced decision making and accountability through dissemination of relevant, timely, accurate and complete information and communicating responsibilities and actions.

The following techniques shall be used to assist with monitoring:

- i. Identification and tracking of risk indicators that can act as an early warning system.
- ii. Risk management shall be a standing item in management meetings whereby all management officials shall report progress on the implementation of risk mitigation measures

- iii. Incident reporting to be made to both management and risk management committee for unacceptable losses
- iv. Emerging risk reporting at both management and risk management committee meetings
- v. Regular risk reporting to the Municipal Council.

### **Guiding principles**

In ideal circumstances the Chief Risk Officer should report directly to the Accounting Officer (AO) given the latter's legal responsibility for risk management. However, where this is not practical because of the AO's large span of control and other operational factors, the AO should delegate on the basis of the following principles:

The Chief Risk Officer should enjoy sufficient "power of office" such that his/her influence does not become diluted, conscious of the fact that the Chief Risk Officer needs to work with and through top management; the person that the Chief Risk Officer reports to is at a sufficiently high level in the institution (preferably not more than 1 level below the AO) and is able and willing to provide the necessary direction, support and guidance to the risk management function; regardless of who the Chief Risk Officer reports to, it is clear throughout the institution that the risk management function is an institutional resource and not an extension of the function under which it is placed for reporting purposes; the Chief Risk Officer should have a dotted reporting line to the Risk Management Committee.

### **The need for a separate risk management unit**

### **Risk assurance**

A combined assurance plan should be developed to reduce duplications in audit processes and prevent any key controls from being missed by assurance providers. The management, internal

auditors and external auditors will combine to provide assurance to council and the accounting officer that internal controls and risk mitigations are appropriately designed and implemented.

Other experts should be incorporated to provide assurance regarding specialized categories of risks. The combined assurance plan for the municipality will be compiled from the risk analysis performed.

#### **Appendix A frequently used Terminology**

<b>Terminology</b>	<b>Definition of Terminology</b>
<b>Accident</b>	Undesired event as a result of a risk behaviour or high risk conditions resulting in personal injury, property damage and or service delivery interruption.
<b>Accounting Officer</b>	Elias Motsoaledi Local Municipality -Municipal Manager.
<b>Enterprise Risk Management. (ERM)</b>	With reference to the highly accepted COSO framework (The Committee of Sponsoring Organizations of the Tread way Commission):“ <i>Enterprise risk management is a continuous, proactive and systematic process, effected by the Board of Directors, Executive Management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity's objectives.</i> ”Enterprise Risk Management is a structured and consistent approach across Elias Motsoaledi Local Municipality that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks (threats and opportunities) that the municipality faces to create stakeholder value. Or Choices made under conditions of uncertainty, bound by acceptable levels of risk, designed to sustain/ maximise stakeholder value.

<b>Hazard</b>	The source of or exposure to danger.
<b>Impact</b>	Impact refers to long-term change. This is the magnitude of the impact on Elias Motsoaledi Local Municipality should the risk actually materialise.
<b>Incident</b>	An undesired event as a result of a risk behaviour, or high-risk conditions, without resulting in loss, but has the potential for losses
<b>Inherent Risk</b>	The remaining risk exposure after the mitigating effects of deliberate management intervention(s) to control such risk exposure.
<b>King Report III</b>	King III report on Corporate Governance also reflects on risk management as an integral part of strategic and operational activities
<b>MFMA</b>	Municipal Finance Management Act (No. 56 of 2003).
<b>Process</b>	Structured set of activities within an entity, designed to produce a specified output for the Elias Motsoaledi Local Municipality.
<b>Probability</b>	This is the likelihood that the risk will materialise.
<b>Residual Risk</b>	The remaining risk exposure after the mitigating effects of deliberate management intervention(s) to control such risk exposure.
<b>Risk</b>	Risks are uncertainty of an events (threats and opportunities) occurring that have a negative impact that could influence the achievement of the goals and objectives of Elias Motsoaledi Local Municipality.
<b>Risk Assessment</b>	The overall process of identifying, analysing and evaluating risk. The risk assessment process should consider risks that are significant to the achievement of Elias Motsoaledi Local Municipality's risk objectives. This is a continuous process, requiring regular reviews, as and when internal and external changes influence the Municipality's strategies and objectives.
<b>Risk Appetite</b>	The extent of willingness to take risks in the pursuit of the business objectives.



<b>Risk Categories</b>	Grouping of risks with similar characteristics used in establishing the client risk portfolio (see risk profile). Ultimately determined by the client, the characteristics used to define risk categories typically reflect the client's business model, industry or other factor that drives risk within Elias Motsoaledi Local Municipality
<b>Risk Management</b>	Risk Management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, undertaking, acting on and communicating risk issues and opportunities.
<b>Risk management Committee</b>	Role fulfilled by the Executive Management Team (EMT).The committee responsible for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of Elias Motsoaledi Local Municipality .
<b>Risk Mitigation</b>	The process of selecting and implementing measures to modify risk (encompasses risk avoidance, risk reduction, risk retention and risk transfer).
<b>Risk Officer</b>	A Senior Officer who is the head of Elias Motsoaledi Local Municipality 's Risk Management Unit.
<b>Risk Owner</b>	The person accountable for managing a particular risk.
<b>Risk Profile</b>	Identification and listing of risks, typically in order of highest to lowest based on a qualitative or quantitative measurement approved by client management.
<b>Risk Strategy</b>	The approach adopted for associating and managing risks based on the objectives and strategies of Elias Motsoaledi Local Municipality.
<b>Risk Tolerance</b>	The level of risk exposure the institution is willing to bear.

--	--

### ABBREVIATIONS

AO	Accounting Officer/Municipal Manager
IA	Internal Audit
MFMA	Municipal Finance Management Act (No. 56 of 2003).
RMC	Risk Management Committee
ERM	Enterprise Risk Management
EMT	Executive Management Team
COSO	Committee Of Sponsoring Organizations
PM	Project Manager
CRO	Chief Risk Officer
AC	Audit Committee
RMS	Risk Management Strategy

DESIGNATION	SIGNATURE	DATE
Developed by :		

Chief Risk Officer		
Reviewed & Recommended by: Audit Committee		
Approved by: Accounting Officer		
Council Resolution Number		