

MSUKALIGWA LOCAL MUNICIPALITY



RISK MANAGEMENT STRATEGY 2020/21

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Note to the user: These document serve as an internal control and an implementation tool for risk management purpose, it may be downloaded or printed but not used for commercial purpose.

Definitions: In this strategy, unless the context indicates otherwise.

Concept (terminology)	Explanation (Meaning)
Accounting officer	The Municipal Manager
Audit committee	An independent committee constituted to review the control, governance and risk management within the Institution, established in terms of section 166 of the MFMA
Chief Audit Executive (CAE)	A senior official within the organization responsible for internal audit activities (where internal audit activities are sourced from external service providers, the Chief Audit Executive is the person responsible for overseeing the service contract and the overall quality of the services provided).
Chief Risk Officer (CRO)	A senior official who is the head of the risk management unit.
Framework	The Public Sector Risk Management Framework.
Municipal Council	As per MFMA/Municipal Act.
Enterprise-wide risk management (ERM)	ERM is a broad-based application of risk management in all major functions and activities of the Institution, rather than only in selected areas, to isolate the material risks.
Inherent Risk	The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.
Municipality	Msukaligwa Local Municipality.
Internal Auditing	An independent, objective assurance and consulting activity designed to add value and improve an Organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
King IV	The King Code of Corporate Governance for South Africa 2016.
Management	All officials of the Municipality except for the Chief Risk Officer and officials reporting to him/her.
MFMA	Municipal Finance Management Act (Act No. 56 of 2003).
Policy	Msukaligwa Local Municipality Risk Management Policy.
Other Official	An official other than the Accounting Officer / Authority, Management, Chief Risk Officer and his/her staff.
Residual Risk	The remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the remaining risk after Management has put in place measures to control the inherent

	risk).
Risk	An unwanted outcome, actual or potential, to the Municipality's service delivery and other performance objectives, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which Management must be aware of and be prepared to exploit. This definition of "risk" also encompasses such opportunities.
Risk Appetite	The amount of residual risk that the Municipality is willing to accept.
Risk Champion	A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner. A risk champion may further be a person with the skills, knowledge, leadership qualities and power of office required to champion a particular aspect of risk management (e.g. Sectional head in a particular department).
Risk Factor	Any threat or event which creates, or has the potential to create risk.
Risk Management	A systematic and formalized process to identify, assesses, manage and monitor risks.
Risk Management Committee	A committee appointed by the Accounting Officer / Authority to review the Municipality's system of risk management.
Risk Management Unit	A business unit responsible for coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibilities of Management for identifying, assessing and managing risk.
Risk Owner	The person accountable for managing a particular risk(s) for the department (e.g. Head of Department).
Risk Tolerance	The amount of risk the Municipality is capable of bearing (as opposed to the amount of risk it is willing to bear)
Strategy	Msukaligwa Local Municipality Risk Management Strategy

1. Introduction

The risk management strategy outlines on how the Municipality will go about implementing its risk management policy. The strategy is informed by the risk management policy and the institution's risk profile.

2. Objectives

The primary objective of risk management strategy is to assist the execution of risk management. The risk management strategy for the Municipality was prepared to give effect to the implementation of the risk management policy and sets out all risk management activities, reporting structure, accountability, monitoring and assurance activities planned for the related financial year.

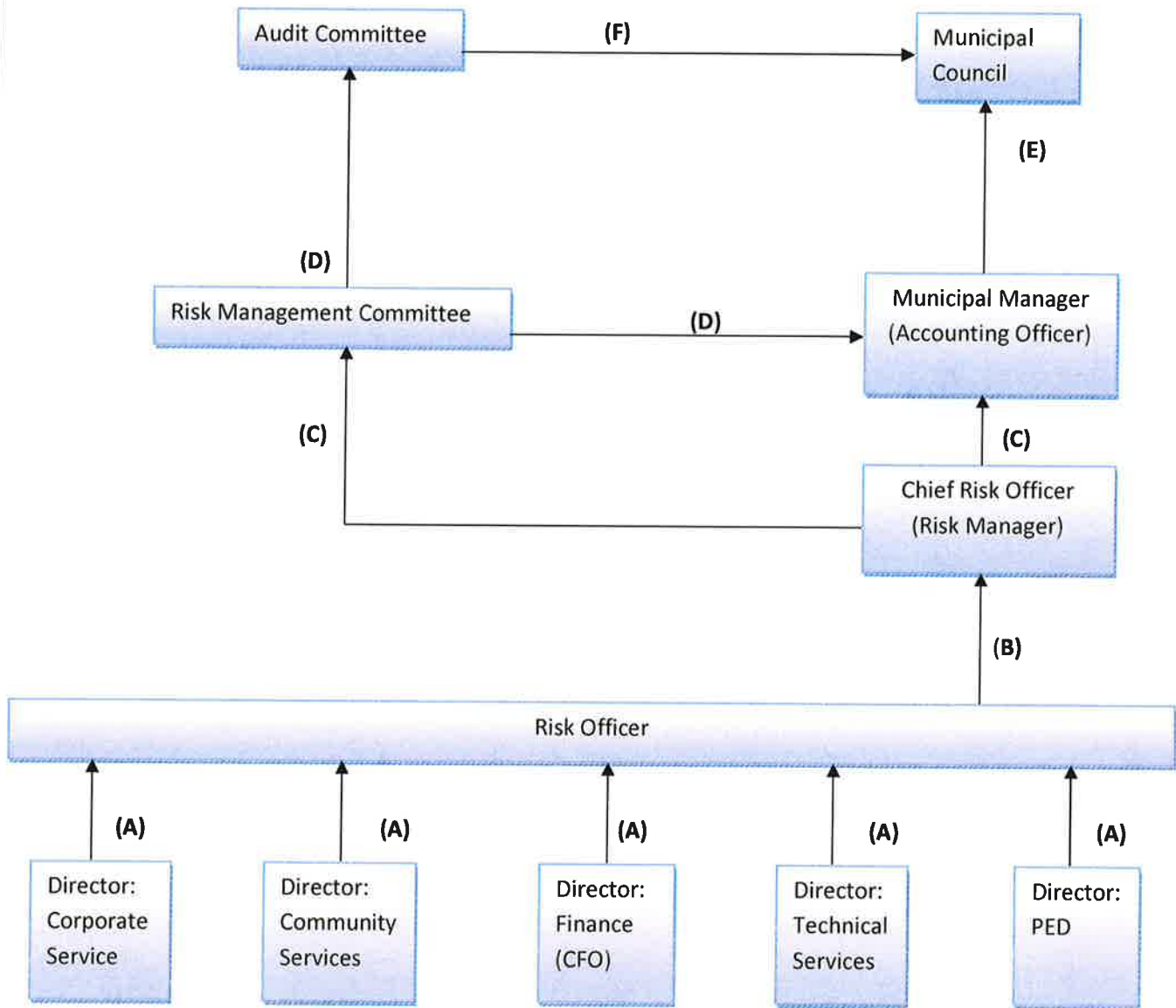
3. Main Components

3.1 Reporting Structure

For the Municipality to have an effective and efficient Risk Management system, a proper reporting structure need to be designed and implemented in order to communicate and give attention to all level of management in the Municipality with regards to issues of Risk Management. The structure (figure 1) below shows the reporting lines of Risk Management within the institution:

- A – Risk Officer provide support function to all Department;
- B – Risk Officer report to Chief Risk Officer (Manager);
- C – CRO report to the Municipal Manager on functional activities and the Risk Management Committee on risk management operational activities;
- D – Risk Management Committee report to Municipal Manager and the Audit Committee;
- E – Municipal Manager Report to the Municipal Council;
- F – Audit Committee report/advice to the Municipal Council.

Figure 1



3.2 Accountability, Roles and Responsibilities

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This component of the strategy describes the authority and delegation of responsibilities to give effect to the risk management policy. The below indicated role players are discussed in more details with regard to their accountability, roles and responsibilities to risk management:

- Municipal Council
- Accounting Officer
- Audit committee
- Risk Management Committee
- Chief Risk Officer
- Management
- Risk Champions
- Internal Audit
- External Audit
- Provincial Treasury

3.2.1 Municipal Council - The Executive Authority must obtain an interest in risk management of the Municipality to the extent necessary to obtain comfort that proper functioning systems of risk management are established and in place to protect the Municipality against significant risks.

Responsibilities of the Executive Authority in risk management shall include the following:

- a. Approve the risk management policy.
- b. Approve the fraud prevention policy.
- c. Ensuring that the Institutional strategies are aligned to the government mandate.
- d. Obtaining assurance from management that the Municipality's strategic choices were based on a rigorous assessment of risk.
- e. Obtaining assurance that key risks inherent in the Municipality's strategies were identified and assessed, and are being properly managed.
- f. Assisting the Accounting Officer to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence.
- g. Insisting on the achievement of objectives, effective performance management and value for money.

3.2.2 Accounting Officer - The Accounting Officer is the ultimate Chief Risk Officer of the Municipality and is accountable for the Institution's overall governance of risk. The responsibilities of the Accounting Officer shall include the following:

- a. Delegate responsibilities for risk management to Management and internal formations such as the Risk Management Committee, Fraud Prevention Committee, Finance Committee, Information and Communication Technology Committee.

- b. Holding Management accountable for designing, implementing, and monitoring and integrating risk management into their day-today activities.
- c. Providing leadership and guidance to enable Management and internal structures responsible for various aspects of risk management to properly perform their functions;
- d. Ensuring that the control environment supports the effective functioning of risk management;
- e. Recommend for approval of the risk management policy, strategy, and implementation plan;
- f. Recommend for approval of the fraud prevention policy, strategy and implementation plan;
- g. Approving the risk management strategy and implementation plan;
- h. Approving the fraud prevention strategy and implementation plan;
- i. Approving the Institution's risk appetite and risk tolerance;
- j. Devoting personal attention to overseeing management of the significant risks;
- k. Leveraging the Audit Committee, Internal Audit, External Audit and Risk Management Committee for assurance on the effectiveness of risk management;
- l. Ensuring appropriate action in respect of the recommendations of the Audit Committee, Internal Audit, External Audit and Risk Management Committee to improve risk management;
- m. Providing assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated;

3.2.3 Audit committee - The Audit Committee is an independent committee responsible for oversight of the Municipality's control, governance and risk management. The responsibilities of the Audit Committee with respect to risk management should be formally defined in its charter.

3.2.4 Risk Management Committee - The Risk Management Committee is a management committee, chaired by an independent person appointed by the Accounting Officer to assist the Municipality to discharge their responsibilities for risk management. The responsibilities of the Risk Management Committee should be formally defined in a charter approved by the Accounting Officer.

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

The responsibilities of the Chief Risk Officer shall include the following:

- a. To work with senior management to develop the Municipality's vision for risk management.
- b. To develop, in consultation with management, the Municipality's risk management framework incorporating, *inter alia*, the:
 - i. Risk management policy;
 - ii. Risk management strategy;
 - iii. Risk management implementation plan;
 - iv. Risk identification and assessment methodology;
 - v. Risk appetite and tolerance and;
 - vi. Risk classification.

- c. Communicating the Municipality's risk management framework to all stakeholders in the Municipality and monitoring its implementation;
- d. Facilitating orientation and training for the Risk Management Committee;
- e. Training all stakeholders in their risk management functions;
- f. Continuously driving risk management to higher levels of maturity;
- g. Assisting Management with risk identification, assessment and development of response strategies;
- h. Monitoring the implementation of the response strategies;
- i. Collating, aggregating, interpreting and analyzing the results of risk assessments to extract risk intelligence;
- j. Reporting risk intelligence to the Accounting Officer / Authority, Management and the Risk Management Committee; and
- k. Participating with Internal Audit, Management and Auditor-General in developing the combined assurance plan for the institution

3.2.6 Management - Management is responsible for executing their responsibilities outlined in the risk management strategy and for integrating risk management into the operational routines. The responsibilities of Management shall include the following:

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

3.2.7 Other Officials - Other officials are responsible for integrating risk management into their day-to-day activities. The responsibilities of Other Officials shall include the following:

- a. Applying the risk management processes in their respective functions;
- b. Implementing the delegated action plans to address the identified risks;
- c. Informing their supervisors and/or the Risk Management Unit of new risks and significant changes in known risks; and

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- d. Co-operating with other role players in the risk management process and providing information as required.

3.2.8 Risk Champions - Risk Champions should also add value to the risk management process by providing guidance and support to manage problematic risks and risks of a transversal nature that require a multiple participant approach. The responsibilities of Risk Champions shall include the following:

- a. Shall be involved in the intervening in instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials and the lack of institutional skills and expertise.
- b. In order to fulfill his/her function, the Risk Champion should possess:
 - i. A good understanding of risk management concepts, principles and processes
 - ii. Good analytical skills;
 - iii. Expert power
 - iv. Leadership and motivational qualities; and
 - v. Good communication skills.
- c. The Risk Champion should not assume the role of the Risk Owner but should assist the Risk Owner to resolve problems.
- d. Appointment of risk champions should be reviewed on an annually basis base of the performance.

3.2.9 Provincial Treasury - Provincial Treasury has specific functions in terms of and sections 5(2) and 34 of the MFMA to:

- i. Prescribe uniform norms and standards;
 - ii. Monitor and assess the implementation of the MFMA;
 - iii. Assist Institutions in building their capacity for efficient, effective and transparent financial management; and
 - iv. Enforce the MFMA.
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- a. To give effect to 3.2.11(ii), the National Treasury should monitor and assess, among other things, the implementation of risk management, including any prescribed norms and standards.
 - b. With respect to capacity building, the National Treasury should assist national departments, national public entities, Constitutional institutions, municipalities and municipal entities in building their capacity for, among other things, efficient, effective and transparent risk management.
 - c. With respect to enforcement, the National Treasury should enforce the legislation and any prescribed norms and standards for, among other things, risk management in national

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departments, national public entities, Constitutional institutions, municipalities and municipal entities.

- d. In addition, the National Treasury may do anything further that is necessary to fulfill its responsibilities effectively.

3.3 Risk Management Activities (Approach)

This component outline the methodologies that the Municipality will use to approach its risk management processes (Risk identification, assessment, response, monitoring, communication and reporting) in detailed to give outcome to the risk management policy.

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

The risk identification process should cover all risks, regardless of whether or not such risks are within the direct control of the Institution. Risk workshops and interviews will be used for identifying, filtering and screening risks, but it is important that the judgmental based techniques be supplemented by more robust and sophisticated methods where possible, including quantitative techniques.

The center of attention of risk identification is to ensure comprehensiveness of risk identification the Municipality should identify risk factors through considering both internal and external factors, through appropriate processes of:

- a. **Strategic risk identification** to identify risks emanating from the strategic choices made by the Institution, specifically with regard to whether such choices weaken or strengthen the Institution's ability to execute its Constitutional mandate:
 - i. Strategic risk identification should precede the finalization of strategic choices to ensure that potential risk issues are factored into the decision making process for selecting the strategic options;
 - ii. Risks inherent to the selected strategic choices should be documented, assessed and managed through the normal functioning of the system of risk management; and
 - iii. Strategic risks should be formally reviewed concurrently with changes in strategy, or at least once a year to consider new and emerging risks.

- b. **Operational risk identification** to identify risks concerned with the Municipality’s operations:

- i. Operational risk identification should seek to establish vulnerabilities introduced by employees, internal processes and systems, contractors, regulatory authorities and external events;
- ii. Operational risk identification should be an embedded continuous process to identify new and emerging risks and consider shifts in known risks through mechanisms such as management and committee meetings, environmental scanning, process reviews and the like; and
- iii. To the extent that 3.3.1(a) (ii) is deemed inadequate to expose the full extent of risk introduced by significant environmental or Institutional changes, operational risk identification should be repeated when changes occur, or at least once a year, to identify new and emerging risks.

c. Project risk identification to identify risks inherent to particular projects:

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

3.3.2 Risk Assessment – Risk 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 Institution. The main purpose of risk assessment is to help the Municipality to prioritize the most important risks as the Municipality is not expected to have the capacity to deal with all risks in an equal manner.

- a. Risks should be assessed on the basis of the likelihood of the risk occurring and the impact of its occurrence on the particular Institutional objective(s) it is likely to affect (See Annexure A and B). Risks should be expressed in the same unit of measure used for the key performance indicator(s) concerned. Risk assessment should be performed through a three stage process:
 - i. Firstly, the inherent risk should be assessed to establish the level of exposure in the absence of deliberate management actions to influence the risk (See Annexure D);
 - ii. Secondly, a residual risk assessment should follow the process described in 3.3.2 (a)(i) to determine the actual remaining level of risk after the mitigating effects of management actions to influence the risk (See Annexure E); and
 - iii. Thirdly, the residual risk should be benchmarked against the Municipality's risk appetite to determine the need for further management intervention, if any.
- b. Risk assessment should be strengthened where possible by supplementing Management's perceptions with the risks, inter alia, with:
 - i. Review of external and internal audit reports;

- ii. Review of the reports of the Standing Committee on Public Accounts and the relevant Parliamentary Committee(s);
- iii. Financial analyses;
- iv. Historic data analyses;
- v. Actual loss data;
- vi. Interrogation of trends in key performance indicators;
- vii. Benchmarking against peer group or quasi peer group;
- viii. Market and sector information;
- ix. Scenario analyses; and
- x. Forecasting and stress testing.

- c. Risk assessments should be re-performed for the key risks in response to significant environmental and/or organizational changes, but at least twice a year, to ascertain the shift in the magnitude of risk and the need for further management action as a result thereof.

3.3.3 Risk Response - Risk response is concerned with developing strategies to reduce or eliminate the threats and events that create risks (Refer to annexure F & G for further explanations).

- a. Management should develop response strategies for all material risks, whether or not the management thereof is within the direct control of the Institution, prioritizing the risks exceeding or nearing the risk appetite level. Where the management of the risk is within the control of the Institution, the response strategies should consider:
 - i. Avoiding the risk by, for example, choosing a different strategy or terminating the activity that produces the risk;
 - ii. Treating the risk by, for example, implementing or improving the internal control system;
 - iii. Transferring the risk to another party more competent to manage it by, for example, contracting out services, establishing strategic partnerships and buying insurance;
 - iv. Accepting the risk where cost and strategy considerations rule out alternative strategies; and
 - v. Exploiting the risk factors by implementing strategies to take advantage of the opportunities presented by such risk factors.
- b. In instances where the management of risk is not within the control of the Institution, the response strategies should consider measures such as forward planning and lobbying.
- c. Response strategies should be documented and the responsibilities and timelines attached thereto should be communicated to the relevant persons.
- d. Without derogating from the above, everyone in the Municipality should also have responsibilities for maintaining effective systems of internal controls, consistent with their delegated authority. Management should develop the internal control architecture through:

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- i. **Preventative controls** - to prevent errors or irregularities from occurring e.g. physical security of assets to prevent theft;
- ii. **Detective controls** - to find errors or irregularities after they have occurred e.g. performance of reconciliation procedures to identify errors; and
- iii. **Corrective controls** - that operate together with detective controls to correct errors or irregularities.

e. The internal control architecture should include:

- i. **Management controls** - to ensure that the Municipality's structure and systems support its policies, plans and objectives, and that it operates within laws and regulations;
- ii. **Administrative controls** - to ensure that policies and objectives are implemented in an efficient and effective manner;
- iii. **Accounting controls** - to ensure that resources are accounted for fully and transparently and are properly documented; and
- iv. **Information technology controls** - to ensure security, integrity and availability of information.

3.3.4 Communication and Reporting - Relevant information, properly and timorously 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:

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

3.3.5 Monitoring - Monitoring concerns checking on a regular basis to confirm the proper functioning of the entire risk management system. Monitoring should be effected through ongoing activities or separate evaluations to ascertain whether risk management is effectively practiced at all levels and across the Municipality in accordance with the risk management policy, strategy and plan.

a. Monitoring activities should focus on evaluating whether:

- i. Allocated responsibilities are being executed effectively;
- ii. Response strategies are producing the desired result of mitigating risks or exploiting opportunities; and
- iii. A positive correlation exists between improvements in the system of risk management and Institutional performance.

3.4 Assurance Activities

3.4.1 Internal Audit - The role of the Internal Auditing in risk management is to provide an independent, objective assurance on the effectiveness of the Municipality's system of risk management:

- a. Internal Auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.
- b. Internal Auditing must develop its internal audit plan on the basis of the key risk areas.

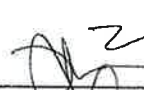
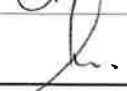
3.4.2 External Audit - The external auditor (Auditor-General) provides an independent opinion on the effectiveness of risk management. In providing the audit opinion, the Auditor-General usually focuses on:

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

4. Implementation of the strategy - The policy will be communicated throughout the municipality during monthly departmental meetings. It will also be posted on the Municipal Intranet and Website for the purpose of ease accessibility, awareness and education for the users.

5. Review of the strategy - The risk management strategy will be reviewed annually provided of the change in the prescribed norms and standard governing it existence to ensure that it remains current and relevant to all legislature and guidelines of Risk Management in the Public Sector.

6. Approval of the strategy - The approval of this policy rest with the Municipal Manager with recommendation of the Risk Management Committee.

Authority	Date	Signature
Recommended by Chairperson: Risk Management Committee Mr F.M Mkhabela	25/06/2020.	
Approved by Municipal Manager Ms GJ Majola	26/6/2020	

7. Annexure(s)

Annexure A: Potential Loss / Impact

Severity Ranking	Assessment	Factor
Critical	Negative outcomes or missed opportunities that are of critical importance to the achievement of objectives	5
Major	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives	4
Moderate	Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives	3
Minor	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives	2
Insignificant	Negative outcomes or missed opportunities that are likely to have a relatively negligible impact on the ability to meet objectives	1

Annexure B: Likelihood

Likelihood category	Category definition	Factor
Common	The risk is already occurring, or is likely to occur more than once within the next 12 months	5
Likely	The risk could easily occur, and is likely to occur at least once within the next 12 months	4
Moderate	There is an above average chance that the risk will occur at least once in the next three years	3
Unlikely	The risk occurs infrequently and is unlikely to occur within the next three years	2
Rare	The risk is conceivable but is only likely to occur in extreme circumstances	1

Annexure C: Perceived control effectiveness

Score	Factor	Criteria
0%	No control	There are no controls in place
1-20%	Controls not effective	There are limited controls in place with major deficiencies
21-40%	Controls needs improvement	There are controls in place but they are either not effective or not being adhered to
41-60%	Controls are adequate	There are controls in place but they require improvement to make them effective
61-80%	Effective	There are controls in place and they are implemented and are effective
81-90%	Highly effective	There are controls in place and they are implemented and are highly effective

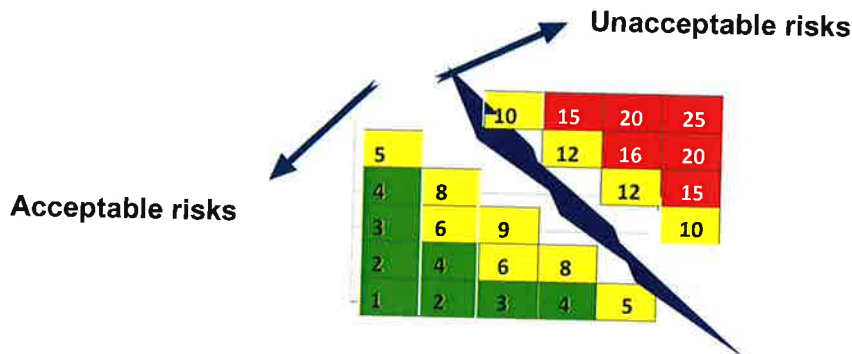
Annexure D: Inherent risk exposure (Impact x Likelihood)

<i>Inherent risk exposure</i>	<i>Factor</i>
Maximum	20-25
High	15 -19
Medium	10-14
Low	5-9
Minimum	1-5

Annexure E: Residual risk exposure (Inherent risk x control effectiveness)

<i>Residual risk exposure</i>	<i>Factor</i>
Maximum	20-25
High	15 -19
Medium	10-14
Low	5-9
Minimum	1-5

Annexure F: Risk acceptance criteria



Annexure G: Risk acceptability Proposed actions.

Risk index	Risk magnitude	Risk acceptability	Proposed actions
20 – 25	Maximum risk	Unacceptable	Take action to reduce risk with highest priority, accounting officer and executive authority attention.
15 – 19	High risk	Unacceptable	
10 – 14	Medium risk	Unacceptable	Take action to reduce risk, inform senior management.
5 – 9	Low risk	Acceptable	No risk reduction - control, monitor, inform management.
1 – 4	Minimum risk	Acceptable	No risk reduction - control, Monitor, inform management.

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