VICTOR KHANYE

LOCAL MUNICIPALITY – PLAASLIKE MUNISIPALITEIT

RISK MANAGEMENT STRATEGY 2020/21

Policy Number:	Approved Date:
Resolution Number: A 013/09/2020	Review Date:

INDEX **PAGE**

1. Introduction and background

Risk Management Policy remains a primary document for effective and efficient Risk Management in the Municipality; however the Risk Management strategy outlines the practical implementation of the policy.

2. The purpose of the strategy

The strategy is aimed at outlining the process flow of risk identification and assessment as one of the most important components of risk management and to outline the systematic approach on the utilisation of quantitative and qualitative methods when rating and ranking the Municipality's risks.

3. Alignment with Mpumalanga Provincial Risk Management Methodology

Victor Khanye Local Municipality has aligned its risk management strategy in terms of risk assessment approach with Mpumalanga Provincial Risk Management Methodology by the Provincial Treasury and other aspects contained in the Public Sector Risk Management Framework by the National Treasury for an example on categorisation of risks.

4. Legal Mandate Guiding Frameworks and Best Practices

4.1 Batho Pele Principles as per the White Paper of 1997 on the Transformation of Service Delivery
4.2 Mpumalanga Provincial Risk Management Methodology
4.3 Public Sector Risk Management Framework
4.4 Section 195 of the Constitution of the Republic of South Africa Act 108 of 996
4.5 Sections 62 (1) (c) (i) and 95 (c) (i) of the MFMA
4.6 Section 55 of the MSA
4.7 KING IV Corporate Governance
4.8 ISO 31000

5. Principles of Risk Management Strategy

5.1 The creation of this strategy is driven by four key principles:

5.1.1. Principle 1 - Risk management is everyone's responsibility and that the entire management and individual employees are responsible for understanding and implementing risk management principles within their areas of responsibility and for making effective risk management decisions.

5.1.2. Principle 2 - The Municipality will manage its significant risks through an integrated approach. The process will be established or enhanced to optimise trade-offs between risk and return and maximize value to the Municipality. Optimisation of risk and return ensures that the Municipality accepts the right amount of risk to meet or exceed its objectives.

5.1.3. Principle 3 -Risk management will not be a stand-alone function, but will become an inherent, explicit and routine part of strategic planning, business process and operational activities. This means that the risk identification and assessment process will not be done in isolation but will form part of the strategic planning, business process and operational activities.

5.1.4. Principle 4 - Risk management will continue to evolve; the Municipality will continuously improve its risk management processes to ensure that it reflects best practices and adds value to the Municipality's service delivery capacity. This evolution will recognize and adapt to changes in strategic direction. It will also recognize different rates of maturity in elements of risk management strategy.

6. Expectations over risk management and the risk identification and risk assessment

6.1 Risk Management Committee is a structure discharged with responsibilities over risk management matters; however this committee will need an assurance that risks are identified, assessed and managed accordingly.

6.2 Risk Management Unit should facilitate the risk assessments annually or on regular intervals to assist management in ensuring that the risk management processes are up-to-date and monitored continuously.

6.3 Risk assessment sessions should be comprised of Management, Audit Committee members, Risk Management Committee members, key staff members or personnel and may include delegation from the Council.

6.4 Risks should be drawn from the strategic objectives or categories as per the Public Sector Risk Management Framework (strategic risk assessments), objectives of the Departments and Divisions (operational risk assessments) and the project and other areas of risk assessments.

7. First phase of risk identification and assessment

7.1 Preparatory pack should be readily available to the participants, outlining what and how risk identification and assessment is going to take place.

7.2 The pack should outline the ultimate goal and objectives of the exercise, step by step and the availability of Integrated Development Plan and Service Delivery and Budget Implementation Plan, where the former will serve a purpose in the strategic risk assessments and the latter will serve a purpose in both project risk assessment and operational risk assessment. The pack should also consider matters raised by the Internal Audit Division and Auditor-General South Africa on both strategic, project and operational risk assessments.

7.3 Strategic risk identification and assessment workshop should take place before the operational risk identification and assessment workshop; this is done because the strategic risk identification and assessment should set a tone at the top, as such it serves to assist a strategic drive to the Institution and thereafter operational and project risk identification and assessment can take place.

8. Second and last phase of risk identification and assessment

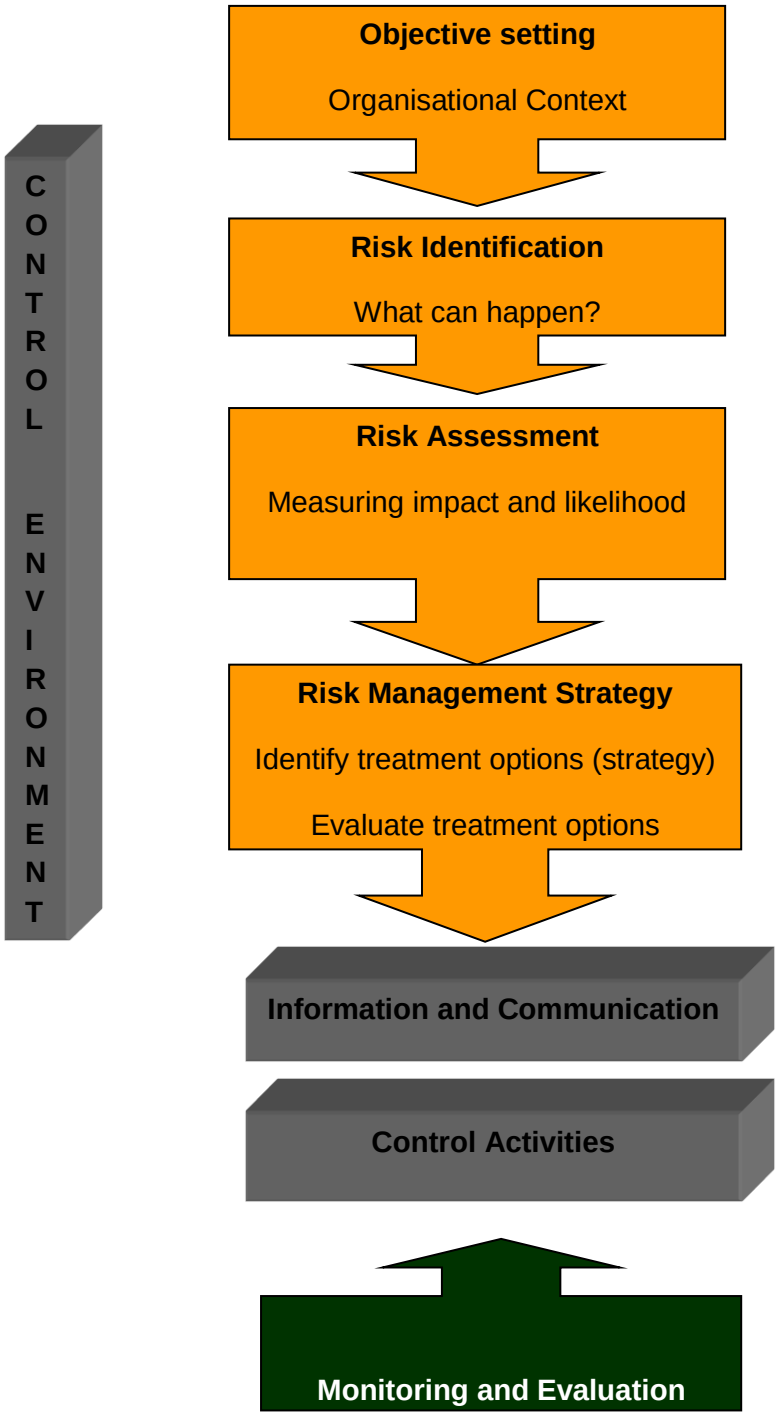
8.1 The risk identification and assessment pack should outline the rating table of risks both on likelihood and impact before consideration of current controls to arrive at the total inherent risk. The pack should have a table of percentages and the meanings thereof on perceived control effectiveness of current controls.

8.2 A formula should be developed on the calculation of residual risks, which is a risk that remains after the consideration of current controls. The Municipality will consider the residual risk level or rating when it decides on the mitigating plans, the higher the residual risk level or rating the higher the concentration of the Municipality on that risk, and the risks will be ranked according to their rating levels (a summary of high risk areas will be made). The Municipality should have a risk matrix which will indicate the risk index, risk magnitude, risk acceptability and proposed mitigating steps, **see Annexure A** of Risk Management Policy under paragraph 1.2 page 17 thereof.

8.3 After a risk rating has been decided, mitigating plans should be identified and they should crafted in a manner that they address the contributing factors and areas that are still lacking in terms of current controls, risk owners and timelines should be clearly specified on the risk register for the purpose of proper accountability. The Risk Management Committee will monitor the progress made on the mitigation plans on quarterly basis.

8.4 A preparatory pack on risk identification and assessment should contain in it, the risk language such as but not limited to: inadequate, ineffective, inefficiency, failure to, lack of and many others.

9. The eight components of risk management



The eight components of risk management on page 6 serve to depict the risk management approach or cycle, as mentioned in page 7 to page 10 of the risk management policy, which is precisely sub-heading 9 from paragraph 9.1 to paragraph 9.11 Thereof.

10. The importance of risk management implementation plan

The risk management implementation plan is an enabler that gives a direction on activities that need to be carried out in terms of risk management in the Municipality, in order to fulfil the expectations of risk management policy. A risk management implementation plan is part of the risk management strategy in ensuring a sound and effective implementation of risk management systems.

11. Roles and responsibilities over Risk Management

11.1 Council

The Accounting Authority should take an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the municipality against significant risks.

Responsibilities of the Council with respect to risk management include:

a) Ensuring that the institution's strategies are aligned to the government's mandate;
b) Obtain assurance from management that the municipality's strategies were based on a rigorous assessment of risk;
c) Obtain assurance that key risks inherent in the institution's strategies were identified and assessed, and that they are properly managed;
d) Assist the Accounting Officer to deal with fiscal, intergovernmental, political and other risks beyond his direct control and influence;
e) Insisting on the achievement of the objectives; and
f) Approve the risk management policy, strategy and other risk management enabling documents.

11.2 Accounting Officer

The following areas are the responsibilities of the Municipal Manager:

a) Setting a tone at the top by supporting and being seen to be supporting the institution's aspirations for effective management of risks;
b) Delegating responsibilities for risk management to management and internal oversight structure such as the Risk Management Committee
c) Holding management accountable for designing, implementing,monitoring and integrating risk management into their day-to-day activities.
d) Providing leadership and guidance to enable management and internal structures responsible for various aspects of risk management to properly perform their functions;

e) Ensuring that the control environment is conducive for effective functioning of risk management;
f) Approving the municipality's risk tolerance and appetite;
g) Devote personal attention to overseeing management of significant risks;
h) Ensuring appropriate action in respect of recommendations by the Audit Committee, internal and external audits and Risk Management Committee to improve risk management; and
i) Providing assurance to relevant stakeholders that key risks are properly identified, assessed and mitigated.

10.3. Audit Committee

The Audit Committee is an independent and external advisory body discharged with responsibilities over municipality's controls, governance and risk management but not limited to. The following are the functions of the Committee with regard to risk management:

a) Provide an independent and objective view of the municipality's risk management effectiveness;
b) Review and recommend disclosures on matters of risk in the annual financial statements;
c) Review and recommend disclosures on matters of risk and risk management in the annual report;
d) Providing a regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the municipality, including recommendations for improvement;
e) Ensuring that the internal audit plans are aligned to VKLM''s risk profile;
f) Satisfy itself that it has appropriately addressed the following areas:
   i) financial reporting risks, including the risks that relates to fraud;
   ii) internal financial controls; and iii) IT risks as they relate to financial reporting.

1.04 Internal Audit

a) The Internal Audit will adhere to section 165 (2)(a) of the MFMA by designing a risk based audit plan and an internal audit program for each financial year through the use of the municipality's risk register and other sources.
b) The Risk Management Division shall develop a risk register to be submitted to Internal Audit Division.

c) The Municipality's risk register will be used to identify extremely risky areas and thereafter review the identified areas to verify whether there are internal controls in place and whether they are effective and working as intended.
d) After reviewing the different functional areas, the Internal Audit will collaborate with Risk Management Division to resolve the identified internal control deficiencies.
e) The Risk Management Division will thereafter assist management in designing controls that are aimed at ensuring that the identified weaknesses are properly addressed. Once the above mentioned process has been completed and implemented, the Internal Audit will perform a follow-up audit to verify whether the designed internal controls are working as intended.
f) The Risk Management Division will evaluate reports from Internal Audit to assess the effectiveness of the designed controls.

10.5. Risk Management, Anti-Fraud & Anti-Corruption Committee

The Risk Management, Anti-Fraud & Anti-Corruption Committee should be appointed by the Accounting Officer to assist the Municipality in discharging its responsibilities over risk management. The membership of the committee should comprise both management and external members with the necessary blend of skills, competencies and attributes. The chairperson of the Risk Management, Anti-Fraud & Anti-Corruption Committee should be an independent external person appointed by the Accounting Officer.

10.5.2 The following are the areas to be under the control of the above Committee:

a) Review and recommend for the approval of the following enablers:

i) Risk management policy; ii) Risk management strategy; iii) Risk management implementation plan;

iv) Municipality's risk appetite, ensuring that limits are:

- Supported by rigorous analysis;
- Set for all significant risks individually as well as in aggregate for particular categorisation of risks; and
- Consistent with the materiality and significance framework.

v) Municipality's risk tolerance level that it is supported by rigorous analysis of:

- The municipality's ability to withstand significant risks; and
- The municipality's ability to recover financially and operationally from significant risks. vi) The municipality's risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeous and accurate mechanism of identifying and assessing the municipality's risks.

b) Evaluate the extend and effectiveness risk management's integration within the municipality;

c) Assess implementation of risk management policy and strategy (including the plan);
d) Evaluate the effectiveness of the mitigation strategies implemented to address the Municipality's significant risks;
e) Review the material findings and recommendations by the assurance providers on the system of risk management and monitor the implementation of such recommendations,
f) Develop its own performance indicators for approval by the Accounting Officer;
g) Interact with the Audit Committee to share information relating to the municipality's significant risks; and
h) Provide timely and useful reports to the Accounting Officer on the state of risk management together with recommendations to address any deficiencies identified by the committee.

10.6. Chief Risk Officer

The role of the Chief Risk Officer is to manage the Risk Management Division and ensure that risk inputs from departments are assimilated and passed through to the Municipal Manager through the Risk Management, Anti-Fraud & Anti-Corruption Committee and the Audit Committee. The role of this function is to set policies and standards for risk management, risk reporting and the integrity of the risk management processes.

In addition, the key responsibilities of the CRO include:

a) Working with senior management to develop the municipality's vision for risk management;
b) Developing, 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 framework to all stakeholders in the institution and monitoring its implementation;
d) Facilitate online or physical orientation and training for the Risk Management, Anti-Fraud &
   Anti-Corruption Committee;
e) Conduct online or physical training of all stakeholders in their risk management functions and Continuously driving risk management to higher levels of maturity;
f) Assisting management with risk identification, assessment and developing of response strategies;
g) Monitoring the implementation of the response strategies, collating , aggregating , interpreting and analysing the results of the risk assessments to produce a risk register;

and h) Reporting the risk register to the Accounting Officer, Management and Risk Management, Anti-Fraud & Anti-Corruption Committee; and participating with Internal Audit,

Management and

i) Auditor-General South Africa in participating in the development combined assurance plan for the municipality.

10.7. Management

Management is responsible for ensuring the achievement of objectives in the areas of their responsibility and should for these purposes identify issues that could prevent them from achieving their goals, thus in short managers are responsible for managing the risks within their areas of responsibility. They should ensure that other officials carry out their duties;

a) Management is responsible for implementing risk management systems within their areas of responsibilities by identifying risks that are within their line functions;
b) Empowering officials to effectively perform risk management responsibilities through proper communication of the responsibilities, comprehensive orientation and on-going opportunities for skills development;
   i. Aligning the functional risk management methodologies and processes with VKLM's processes;
   ii. Devoting personal attention to overseeing the management of key risks within their area of responsibility;
   iii. Maintain a co-operative relationship with the Risk Management Division and Risk Champions; iv. Providing risk management reports on the status of the identified risk;
   v. Presenting to the Risk Management and Audit Committees when requested to do so;
   vi. Maintaining a proper functioning of the control environment within their area of responsibility;
   vii. Monitoring risk management within their area of responsibility; and holding officials responsible for their specific risk management responsibilities.

10.8 Other Officials

a) Must ensure compliance with section 78 (1)(a) of the MFMA which requires that each official of the municipality exercising financial management responsibilities must take all reasonable steps within that official's area of responsibility to ensure that the systems of financial management and internal controls established for the Municipality is carried out diligently, including section 105 (1) (a) on Municipal Entities; and

b) The other responsibilities for other officials include the following:
   i) Apply the risk management processes in their respective functions;

ii) Implement the delegated mitigating plans to address the identified risks; iii) Inform their superiors and Risk Management Division of new risks and significant changes in known risks;

iv) Cooperate with other role players in risk management process and providing information as required; and

v) Must integrate risk management in their day-to-day operations

10.9. Risk Champions/Coordinators

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

i) Intervene in instances where the Risk Management Division's efforts are being hampered, for example , by the lack of co-operation by management and other officials;

ii) Add value to the risk management process by providing support to manage "problematic" risks and risks of transversal nature that requires a multiple participant approach; and

iii) Assist the Risk Owner to resolve the problems

11. Other assurance providers

Assurance provider such as the Auditor-General South Africa will review different aspects of VKLM's operations and activities. These reviews by nature will address risk management's effectiveness. It should be noted that the scope and mandates of the activities of assurance providers are established separately from the risk management policy.

12. Review of the policy

The policy will be reviewed annually or whenever the need arise.

13. Conclusion

The Risk Management Strategy serves to assist the Municipality with the implementation of the Risk Management Policy. In concise, the Risk Management Strategy is aimed at improving the Municipal risk profile. It is imperative that in rolling-out this strategy, that the issues of fraud and corruption prevention are proactively addressed, such as consideration of fraud and corruption during the risk identification and assessment workshops.

ANNEXURE A OF RISK MANAGEMENT POLICY

1. FACTORS USED IN RISK ANALYSIS

6.1 RISK RATING AND RANKING

In any assessment exercise, it is essential that risks are not only identified, but also rated and ranked (prioritized). This is done by rating your risks based on the likelihood (probability) of occurrence and the impact thereof, should that risk materialize. For the purpose of this workshop we will be considering inherent risks, i.e. the risk to the organization in the absence of any actions management might have taken to alter either the specific risks likelihood or impact.

For every risk it is important that you consider the nature and the scope of the risk and then rate the risk accordingly. Risks will be individually ranked by each participant.

- 4.1. Rating on Impact

  When rating a risk on the impact of the risk on the business, should it occur, you need to consider what the extent of the impact of that risk will be on the area of the business, which it affects. Some risks may have a major impact one objective, yet a fairly low impact on the organization as a whole.

"Impact can be defined as the material loss to the organization, should that risk materialize"

Impact will be rated on a scale of 1 to 5 as follows:

Example: Impact on service delivery		
Score	**Impact**	**Consequence**
5	Critical	Negative outcomes or missed opportunities that are of critical importance to the achievements of the objectives
4	Major	Negative outcome or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives.
3	Moderate	Negative outcome or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives.
2	Minor	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives.
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives

4.2. Rating on Likelihood (probability)

When voting on the likelihood of a risk materiality, we will be considering the possibility that the given event or risk or reduce the probability of the risk materializing.

"Likelihood can be defined as the probability of an adverse event, which could cause materialisation of the risk, may occur."

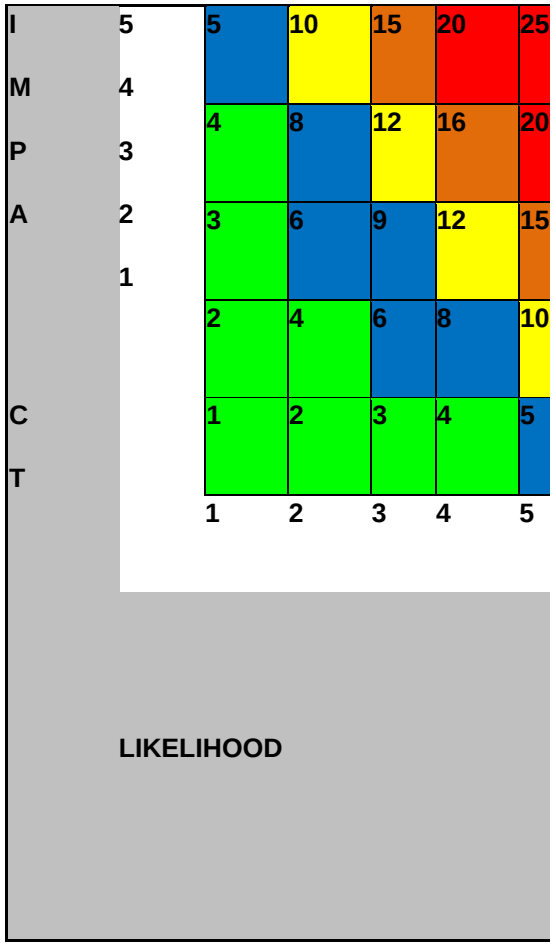
Likelihood will be rated on a scale of 1 to 5:

Example: Certainty of occurrence		
Score	**Likelihood**	**Occurrence**
5	Common	The risk is already occurring, or is likely to occur more than once within the next 12 months.
4	Likely	The risk could easily occur, and is likely to occur at least once within the next 12 months.
3	Moderate	There is an above average chance that the risk will occur at least once in the next 3 years

2	Unlikely	The risk occurs infrequently and is likely to occur within the next 3 years.
1	Rare	The risk is conceivable but is only likely to occur in extreme circumstance

Step 2: Applying the parameters to the risk matrix to indicate what areas of the risk matrix would be regarded as high, medium or low risk (see the example below);

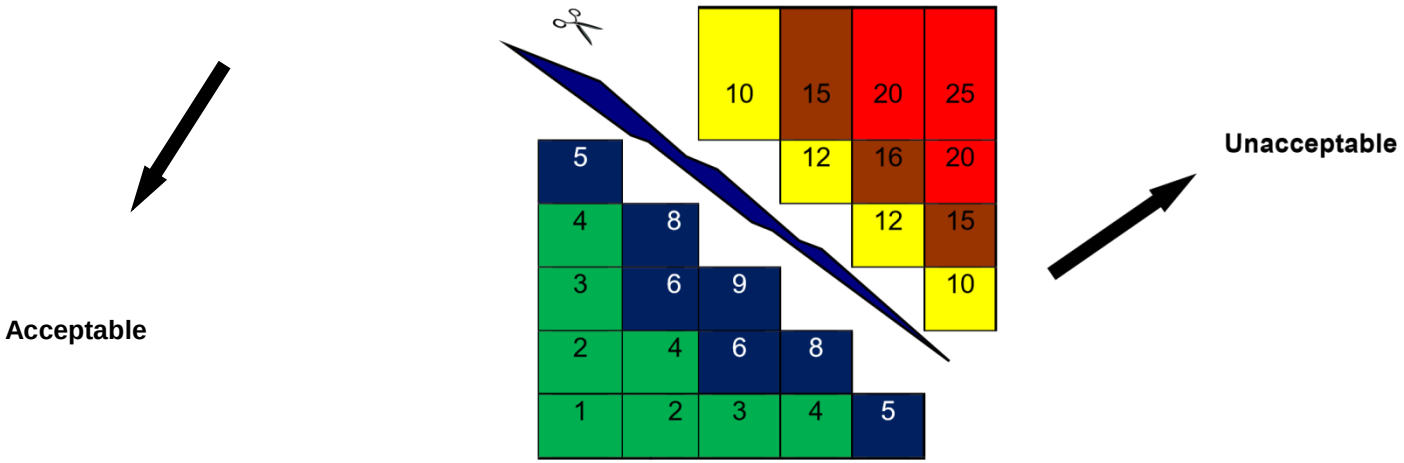
Risk Index = Impact x Likelihood



Risk index	Risk Magnitude
20 - 25	Maximum
15 - 19	High risk
10 - 14	Medium risk
5 - 9	Low risk
1 - 4	Minimum risk

Step 3: Determining the Residual Risk after mitigating effects of deliberate management intervention; which will result in re-assessing the impact and the likelihood. In this case the controls only change the likelihood of occurrence and the impact will remain the same.

Step 4: Determining the residual acceptance criteria (**see the example below**);



Step 5: Determine risk acceptability and what will be proposed to reduce the risk (**see the example below**);

Risk Index	Risk Magnitude	Risk Acceptability	Proposed mitigating steps
20 - 25	Maximum risk	Unacceptable risk	Take action to reduce risk with highest priority
15 - 19	High risk	Unacceptable risk	Take action to reduce risk with highest priority
10 - 14	Medium risk	Unacceptable risk	Take action to reduce risk, inform management
5 - 9	Low risk	Accept Risk	No risk reduction – control, monitor, inform management
1 – 4	Minimum risk	Accept Risk	No risk reduction – control, monitor, inform management

Each risk in the list of identified risks should be evaluated in terms of the above scale.

Step 6: Control Effectiveness for determining the Residual Risk

RATING	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 controls in place in place but they are either not effective or not being adhere to
41-60%	Controls are adequate	There are controls in place but they require improvement to make them effective
61-80%	Effective	There ae controls in place and they are implemented and adhere to
81-90%	Highly effective	There are controls in place and they are implemented and are highly effective

Formula for Residual rating: Residual Risk = Impact X Likelihood, Impact remain the same from the Inherent rating

ANNEXURE B OF RISK MANAGEMENT POLICY

Risk register template for risk profiling

No.	KPA	Operational Goal - Planned Outp	Operational Risk Nc	Risk - Threat to achieving Objec - Planned Output	Root Cause/Contributing Fa	Consequences	Risk Assessme		Inherent Risk	Current Controls	Control Effectiveness	Risk Assessme		Residual Risk	Future Action - Treatment Pl	Risk Owner	Action Owner	Due Date
							Impact	Likelihood				Impact	Likelihood					

Monitoring and reporting tool (Risk evaluation template)

RISK NO.	RISKS IDENTIFIE	RISK REF. N	ROOT CAUSE/ CONTRIBUTIN G FACTOR	RISK RATING		FUTURE ACTION PLAN / RISK MITIGATING STRATEGIES	DUE DATE/T IME FRAME	PROGRESS TO DATE	SOURCE OF EVIDENCE	STATUS QUO ON SUBMISSIO N OF PORTFOLI O OF EVIDENCE	CHALLENGES	REMEDIAL ACTION/ CORRECTIVE MEASURES	RISK OWNER AND REVISED TARGET DATE
				INHEREN	RESIDUA								

Updated by: Surname and Initials _____ Signature _____

Annexure E of Risk Management Strategy

Category of risks

Risk type	Risk category	Description
Internal risks	Human resources	These risks relates to human resources of an organisation such as but not limited to: employee relations, wellness, occupational health and safety, recruitment and retention.
	Knowledge and information management	These are risks that relate to institution of organisation's knowledge and information such as but not limited to: credibility of information, availability of information, relevance of information and safeguarding of information.
	Litigation	These are risks that may occur as result of litigations and lawsuits against the organisation or institution such as risks that are brought by suppliers, service providers, public, employees and many others.
	Loss/theft of assets	These are the risks that may occur as a result of loss or theft of the asset.
	Material resources (procurement risk)	These are risks that relate to the cost of procuring resources, wastage of material resources and etcetera.
	Service delivery	These risks may occur if the expected quality of services is not provided to the citizens.
	Information technology	These are risks that relate to organisation's IT objectives and infrastructure equipment. The following are the areas to be looked into when dealing IT risks: governance, user access controls, programme change management, integration of the systems, security concerns and etcetera.

	Third party performance	Risks that relate institution's reliance on the performance of a third party such as non-performance of a third party to perform in line of service level agreement.

Internal risks	Health and safety	Risks that relate to occupational health and safety issues such as injury on duty and outbreak of disease within the institution.
	Disaster recovery/business continuity	Risks that relate to disasters that could or may impact on the normal functioning of the institution e.g. natural disasters, illegal act by individuals which would lead to possible disruption of processes and service delivery.
	Compliance / regulatory	These are risks that relate to compliance matters or requirements that an institution has to meet such as monitoring and enforcement mechanisms, consequences of non-compliance which may result to payment of fines and penalties and many others.
	Fraud and corruption	These risks relate to illegal and improper acts by either employees including the third parties resulting to loss of institution's assets and resources.
	Financial	Risks that relate to general financial management which include among others: revenue collection, wasteful expenditure, financial losses, budget allocations, increasing operational expenditure and many others.

	Cultural	These are the risks that talks to the institution's overall culture and control environment such as among others: communication channels, management style, goals alignment, entrenchment of ethics and values and many others.
	Reputation	It talks about the risks that may tarnish the image of the organisation's reputation, public perception and image.
External risks	Economic environment	Risks that relate to the institution's economic environment such as inflation, interest rates and foreign exchange fluctuations.
	Social environment	These are risks that emanate from political factors such as political unrest, changes in office bearers and many others.