EMAKHAZENI LOCAL MUNICIPALITY

RISK MANAGEMENT STRATEGY

FOR 2018/2019

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1. INTRODUCTION

1.1 One of the most important mandates is the development and implementation of a risk management strategy whose major objective is to encourage the best practice within the municipality while minimizing the risk and ensuring the Municipality meets its objective. Risk Management is about improving quality and reducing potential harm. In order to do this, Emakhazeni Local Municipality shall maintain safe, effective services by identifying, mitigating or eliminating risks.

2. PURPOSE

The KING IV report sets out the risk management process as the identification of possible risks, determining the impact of these risks on the organisation's goals and the mitigation of these risks according to the entity's risk appetite and tolerance.

In terms of Principle 11 of the KING IV report states that, "The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives" (Institute of Directors Southern Africa, 2016). It is therefore clear that the function of risk governance should not hinder an entity in achieving its strategic objectives but rather support an entity in achieving them.

The purpose of this strategy document is to provide a risk management framework and guidelines to be followed within Emakhazeni Local Municipality regarding risk

3. COMPONENTS OF RISK MANAGEMENT

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

3.2 Risk management is an ongoing process at every level, and consists of eight interrelated components, namely:

(i) The Control Environment;
      (ii)Objective Setting
      (iii)Risk Identification
    (iv)Risk Assessment
 (v)Risk Responses
     (vi)Information and Communication
(vii) Control Activities
  (viii)Monitoring

3.2.1 Control environment

3.2.1.1The control environment sets the tone of the Council and influences how strategies and objectives are structured; and the manner in which risks are identified, assessed and acted upon. It comprises many elements including the Municipality's ethical values, Integrity, discipline, competence, operating style, assigning of authority and responsibility.

3.2.1.2To ensures an effective control environment:

(i) The Municipality should have a systematic approach to deal with risk events that hamper service delivery.

(ii) Management should encourage staff to identify and report risks on a daily basis.

(iii) The risk Management Unit shall develop channels of communicating risks from both internal and external environment.

(iv) Management shall commit itself to effectively mitigate all threatening risks through the systematic process.

(v) Management shall ensure staff competency and development to be able to perform assigned duties.

(vi) Management shall adopt managing style that is aligned to risk philosophy and risk tolerance.

(vii) The Municipality governance structures shall perform their functions efficiently and effectively as prescribed in their charters, and

(viii) Management shall ensure that there is compliance to all policies and staff members are equipped with relevant skills to enable them to deal with new challenges.

3.2.2 Objective Setting

3.2.2.1 Objectives must exist before management can identify events potentially affecting their achievement. The Departments/Units objectives set must be aligned with the vision/mission of the Municipality.

3.2.2.2 The Vision and Mission of Emakhazeni Local Municipality is as follows:

The Vision "A secure environment with sustainable development to promote service excellence , unity and community participation resulting in a caring society"

The Mission "Emakhazeni Local Municipality is a category B municipality and a tourist designation within the Nkangala District, existing to provide sustainable basic municipal services to the local community and the visitors, creating a conducive environment for socio-economic development and promoting democracy, accountability and public participation in its affairs."

3.2.2.3 Objectives are set during the strategic planning and budgetary process under the following category context:

(i) Strategic – these objectives are at higher level goals, aligned and supporting the Municipalities mission, vision and organizational values.

(ii)Operations- the objectives relate to the effectiveness and efficiency of the Municipalities operations, including performance and service delivery goals through the sectional work-plans cascaded from the strategic plan.

3.2.3 Risk Identification

3.2.3.1The purpose of risk identification excise is to identify, discuss and document the risks facing the Municipality. The identification process covers internal and, external, as well as financial and non-financial factors that may give rise to risks and opportunities, in the context of the full scope of the Municipality. Identifying major trends and their variation over time is particularly relevant in providing early warnings. Risk identification process is facilitated by the Risk Management Unit on a continuous basis.

3.2.3.2During Risk identification it is vital to be familiar with sources of risks so to know the causes of risks. The following are possible sources of risks to be considered in order to identify causes of risks.

(i) New activities and services

(ii)Disposal or cessation of current activities

(iii) Outsourcing to external service providers

(iv) Legal Changes

(v) Changes in economic conditions

(vi) Socio-political changes, like elections

(vii) Political interference

(viii)National and international events

(ix) Personnel/human behavior

(x) Behaviors of contractors/private suppliers

(xi) Change in financial/market conditions

(xii) Management activities and controls

(xiii) Misinformation

(xiv)Technology/technical changes

(xv) Service delivery interruption

(xvi)Occupational health and safety

(xvii)   Security (including theft/fraud/impersonation)

3.2.3.3 Risk identification techniques

The following methods are some of the techniques that can be employed to identify the risks the Municipality is faced with:

(i) Using progress reports

(ii) Performance management reports

(iii) Focus groups

(iv) Interviewing of staff

(v) Surveys

(vi) History or failure analysis

(vii) SWOT analysis

(viii) Audit reports

(ix) Whistle blowing reports

(x) Facilitation of reports used by provincial treasury

3.2.3.4 Risk Register

The main output of the risk identification excise is the risk register, which serves three main purposes:

(i) It is a source of information to report the key risks throughout the institution, as well as key stakeholders

(ii) Management uses the register to focus their attention on the most important issues (it helps management to prioritize)

(iii) It helps Auditors to focus their plans on the institutions top risks.

Template of Risk register attached as annexure III.

3.2.4 Risk Assessment

3.2.4.1 Risk assessment allows the Municipality to consider how potential events might affect the achievements of objectives.

3.2.4.2 Management shall assess events by analyzing the likelihood and its impact.

3.2.4.3 The Management of Emakhazeni Local Municipality shall conduct formal Risk Assessments at least annually.

3.2.4.4 The results or information collected from the workshops will be collated and the Council's risks database updated accordingly.

3.2.4.5 Risk assessments should be conducted for all new activities, to ensure that adequate systems are designed to address emerging risks.

3.2.4.6 Management of each department or business unit will be required to continuously assess the risks associated with the activities of their units. The basis for management decisions must therefore include the results of their assessments of associated risks, and the expected outcomes.

3.2.4.7 The implementation of an appropriate risk mitigation strategy will be in accordance with the authority delegated to that official in terms of the policy on delegation of authority and the approval framework.

3.2.5 Risk Responses

3.2.5.1 A key outcome of the risk identification and evaluation process is a detailed list of all key risks including those that require treatment as determined by the overall level of the risk against the Council's risk tolerance levels.

3.2.5.2 However, not all risks will require treatment as some may be accepted by the Council and only require occasional monitoring throughout the period.

3.2.5.3 The risks that fall outside of the Council's risk tolerance levels are those which pose a significant potential impact on the ability of the Council to achieve set objectives and therefore require treatment.

3.2.5.4 The purpose of responding and treating risks is to minimize or eliminate the potential impact the risk may pose to the achievement of set objectives.

3.2.5.5 Risk response involves identifying the range of options for responding to risks, assessing these options and the preparation and implementation of response plans

3.2.5.6 Risk Response Options fall within the following categories:

(i) Avoidance – in many situations, a lower risk choice is available from a range of risk alternatives. Selecting a lower risk option represents a risk avoidance decision. Certainly not all risks should be avoided.

(ii) Reduction (optimize – mitigate) – Risk control is the most common of all risks handling strategies. It is a process of taking specific courses of action to reduce the probability and

reduce the impact. This often involves using review risks reduction milestone and development of management actions. The manager must develop risk reduction plans.

(iii) Sharing (transfers – outsource or insure) – another way to control risk is to deflect it. Through deflection, managers may reduce risk exposure by sharing risk with the service providers and client. The type of contract, performance incentives and warranties may be structured to share risk occurrence. Depending on the specific risk, either approach may be effective. An example of sharing of risk is to outsource security function to a third party.

(iv) Retention (accept and budget) – Risk retention is a decision to accept the consequences if the event occurs. The manager must determine what level of risk can be safely assumed in each situation as it evolves. Critical to this approach would be the risk appetite that the municipality is willing to accept.

3.2.6 Information and communications

3.2.6.1 Information communicated to internal and external stakeholders should be conveyed in a simple, acceptable language to ensure understanding and avoid ambiguity.

3.2.6.2 Risk management unit shall ensure information regarding risks is shared at all levels, on a continuous basis.

3.2.6.3 Communication will aim at raising awareness about the importance and relevance of effective risk management that strives to improve service delivery and sound governance.

3.2.6.4 The risk profile of Emakhazeni Local Municipality must be communicated to all managers within the Municipality.

3.2.6.5 Head of Department/Unit should communicate to their staff the risk levels that are acceptable to each task or activity and the strategies that are designed to mitigate the risks.

3.2.6.6 The communication of the risk profile should be guided by the need for the employees of the Council to understand their role in and contributions to risk appetite

3.2.6.7 Risk Management Unit shall arrange and organize workshops and briefing sessions to all staff to raise awareness and information relating risk management.

3.2.6.8 This process will insure that the same level of understanding and encourage commitment amongst all staff.

3.2.6.9 Everyone will be informed on what is regarded as risk and proper channels of reporting such risks.

3.2.7 Control activities

3.2.7.1Risk responses serve to focus attention on control activities needed to help ensure that the risk responses are carried out properly and in a timely manner.

3.2.7.2 Control activities are part of the process by which Emakhazeni Local Municipality strives to achieve its business objectives.

3.2.7.3Control activities are the policies and procedures that help ensure risk management strategies are properly executed. They occur throughout Emakhazeni Local Municipality, at all levels and in all functions.

3.2.7.4They usually involves two elements: a policy establishing what should be done and procedures to affect the policy.

3.2.7.5Internal Control

3.2.7.5.1Internal control is an integral part of risk management and shall be defined as those elements of the Council, including its resources, people, systems, processes, culture, structure and tasks, which taken together, support the achievement of the Council's objectives.

3.2.7.5.2 Alternatively, internal control shall be defined as a process affected by management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (i) Effectiveness and efficiency of operations
- (ii) Reliability of financial reporting
- (iii) Safeguarding of assets
- (iv) Compliance with applicable laws and regulations

3.2.7.6 Control Procedures

Specific control procedures include:

- (i) Reporting, reviewing and approving reconciliations;
- (ii) Checking the arithmetical accuracy of records;
- (iii) Controlling applications and environment of computer information systems;
- (iv) Maintaining and reviewing control accounts and trial balances;
- (v) Approving and controlling documents;
- (vi) Comparing internal data with external sources of information;
- (vii) Comparing the result of cash, security and inventory counts with accounting records
- (viii) Comparing and analysing the financial result with budgeted amounts
- (ix) Limiting direct physical access to records

3.2.7.7Control can help minimize the occurrence of errors and breakdowns, but cannot provide absolute assurance that they will not occur, and the system of internal control as listed below should be embedded in the operations of Emakhazeni Local Municipality and form part of its culture.

3.2.7.8 Broad Internal Control Focus Areas

Internal controls established in each department/Unit of Emakhazeni Local Municipality should focus on the following areas:

3.2.7.8.1*Adequate segregation of duties*
Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions and events should be separated among individuals;

3.2.7.8 .2*Custody and accountability for resources*
Access to resources and records are to be limited to authorized individuals who are accountable for their custody or use;

3.2.7.8 .3*Prompt and proper recording and classification of transactions*
Transactions should be recorded and properly classified to ensure that information maintains its relevance and value to management in controlling operations and decision-making and to ensure that timely and reliable information is available to management;

3.2.7.8 .4*Authorization and execution of transactions*
Requires that employees execute their assigned duties in accordance with directives and within the limitations established by management or legislation;

3.2.7.8 .5*Documentation*
Internal control structures, i.e. policies and procedures, and all transactions and significant events are to be clearly documented;

3.2.7.8.6*Management supervision and review*
Competent supervision is to be provided, including assignment, review and approval of an employee's work.
Employees should be provided with the necessary guidance and training to help ensure that errors, wasteful, and wrongful acts are minimized and that specific management directives are understood and achieved.

3.2.8 Monitoring

3.2.8.1The Risk database or Register in which all the information from the risk management processes will be stored; will be used as one of the tools to monitor:

- (i) Department/Units performance with regards to risk management process, and
- (ii) Effectiveness of the risk management process in place.

3.2.8.2Risk Monitoring shall be performed on a quarterly basis at Emakhazeni Local Municipality.

3.2.8.2The authority to update the risk register for Emakhazeni Local Municipality shall be restricted to designated officials.

4. SUMMARY OF RISK MANAGEMENT ACCOUNTABILITY, ROLES AND RESPONSIBILITIES

4.1 The risk management responsibilities for Committees, risk reporting, risk assessment, control and governance Emakhazeni Local Municipality are set out below.

- **Committee responsibilities**

No.	Activity	Responsibility	Frequency
01	The Risk Management Committee will meet at least four times a yearto perform risk management responsibilities as stated in the risk management committee charter.	Risk Management Committee Chairperson	Four times per year
02	The Audit Committee will meet on a quarterly basis to review risk management progress.	Audit Committee Chairperson	Quarterly

- **Reporting responsibilities**

No.	Activity	Responsibility	Frequency
03	The Audit Committee will include statements regarding risk management performance in the annual report to Mayoral Committee and Council.	Audit Committee Chairperson	Annually
04	The Risk Management Committee Chairperson will submit a risk management report to the Audit Committee and Accounting Officer on a quarterly basis. This report should also be submitted to Mayoral Committee The report will focus amongst others, on the following:	Risk Management Committee	Quarterly

No.	Activity	Responsibility	Frequency
	Progress on Enterprise Risk Management Implementation Plan. Progress on management of strategic and operational risks. Any risk developments (changes) / incidents / losses. Any risks identified during the quarter (emerging risks). Major resolutions taken by the Committee.		
05	Head of Departments will draft a risk management report for submission to the Risk Management Committee on a quarterly basis. This will focus, amongst others on the following: Progress on management of strategic and operational risks. Any risk developments (changes) / incidents / losses. Any risks identified during the quarter (emerging risks). Each Departmental Risk Management progress report submitted to Risk Management Office must be accompanied by portfolio of evidence file substantiating progress reported.	Risk Champions	Quarterly
06	The Risk Officer will be responsible for developing standard risk	Risk Officer	Quarterly

No.	Activity	Responsibility	Frequency
	management reporting templates, and collate risk management information for submission to Risk Management Committee.		

Risk assessment responsibilities

No.	Activity	Responsibility	Frequency
07	The Council will considermanagement report on the quarterly basis.	Council	Quarterly
08	Risk Management Committee will review progress on risk registers at each meeting and update the register's contents to reflect any changes without formally reassessing the risks.	Risk Management Committee	Quarterly
09	The Risk Officer will be responsible for the facilitation of all risk assessments, and populating the risk registers.	Risk Officer	As scheduled

- **Control responsibilities**

No.	Activity	Responsibility	Frequency
10	The Risk Management Committee Chairperson will report to the Audit Committee regarding the implementation of action plans and	Risk Management Committee Chairperson	Quarterly

No.	Activity	Responsibility	Frequency
	performance of current controls for those risks in the risk registers.		
11	The Head of Departments will report to the Risk Management Committee regarding the implementation of action plans and performance of current controls for those risks in the risk registers.	Head of Department/units	Quarterly
12	The Risk Management committee Chairperson will report to Council regarding the implementation of action plans and performance of current controls for those risks in the risk registers.	Risk Management Committee Chairperson	Quarterly
13	All risk registers will contain action plans for improving risk controls and risk interventions. Risk Management Committee and Audit Committee will review progress made with these action plans.	Risk Management Committee and Audit Committee	As scheduled

- **Governance responsibilities**

No.	Activity	Responsibility	Frequency
14	Each key risk will have a nominated risk owner, who will be responsible for the following: Updating the risk information Providing assurance regarding the risk's controls	Risk Owners	As scheduled

No.	Activity	Responsibility	Frequency
	Coordinating the implementation of action plans for the risk Reporting on any developments regarding the risk.		
15	The internal audit function will use the outputs of risk assessments to compile its strategic three year rolling and annual internal audit coverage plan, and will evaluate the effectiveness of risk controls.	Senior Internal Auditor	As scheduled
16	The Internal Audit function will formally review the effectiveness of the Municipality's risk management processes once a year.	Senior Internal Auditor	Annually

5.OTHER RESPONSIBILITIES

5.1 All employees of Emakhazeni Local Municipality have a responsibility for managing risk in order to achieve personal, workgroup and strategic objectives.

5.2Collectively, employees at operating units need the appropriate knowledge, skills, information and authority to establish, operate and monitor the system of risk control.

5.3 Everyone should be aware of the risks they are empowered to take, which should be avoided and reported upwards.

6. RISK MANAGEMENT STRATEGY REVIEWAL AND APPROVAL

The Risk Management Strategy shall be reviewed annually to reflect the current stance on risk management and approved by the Council.

PREPARED BY:

_____ _____
Ms. NP Malibe Date
Risk Officer

RECOMMENDED BY:

_____   _____

Chairperson: Risk Committee   Date
Mr. L.T Gafane

APPROVED BY:

_____   _____

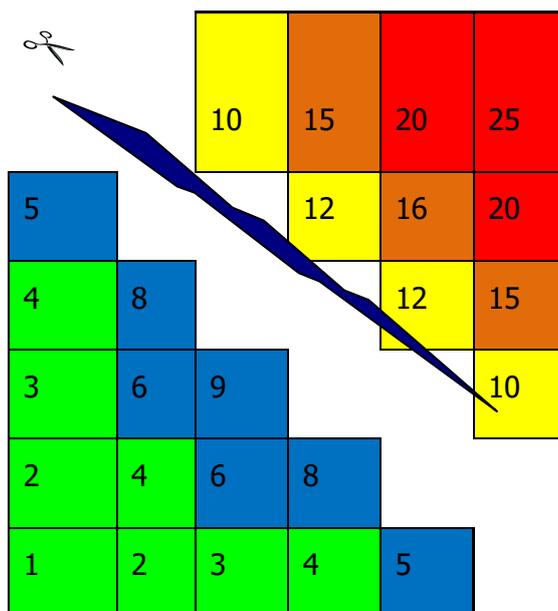Mrs. EK Tshabalala   Date

Municipal Manager

Council Resolution Number**:**_____

Annexure I

1. Risk Tolerance

1.1 Risk tolerance is the amount of risk the Municipality is capable of bearing (as opposed to the amount of risk it is willing to bear)

1.2 Schematic representation of tolerable and intolerable risk rating levels

2. Tolerable level

2.1The above-shown schematic representation serves to inform the Municipality about the range of risks rating from 1 up to 9 as risk ratings which are tolerable or acceptable to the Municipality and those that range from 10 up to 25 as unacceptable or intolerable and the definitions of risks

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

magnitudes will be explained below.

2.2Below is a table showing both intolerable and tolerable levels indicating what to be done and what not to be done under which circumstances. (Risk matrix table)

3. Acceptable risk

3.1Determining that a risk is acceptable does not imply that the risk is insignificant. A risk may be considered to be acceptable because:

3.2The threat posed is assessed to be so low (for an example because the likelihood of occurrence is rare) that specific treatment is not necessary;

3.3The cost of treating the risk is so high compared to the benefit from successful treatment; or

The opportunities presented outweigh the threats to such an extent that the risk is justified.

Annexure II

1. Risk measurement criteria

The criteria used in assessing the likelihood and impact for inherent risks (before mitigating controls) are described in the rating tables. The following are examples of the rating tables that can be utilized to assess the potential impact of risks:

1.2 Impact

Impact is the extent of damage or loss that the Municipality may incur in the event that the risk occurs.

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

1.3 Likelihood

Likelihood answers the question of what are the chances of the risk occurring?

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's an above average chance that the risk will occur at least once in the next 3 years.
2	Unlikely	The risk occurs in frequently and is likely to occur within the next 3 years.
1	Rare	The risk is conceivable but only likely to occur in extreme circumstances.

1.4 Inherent Risk Profile

1.4.1Inherent risk is risk before mitigating controls are implemented. A risk is allocated a risk rating based on the assessment of its impact and likelihood. The risk rating index is utilized to determine the extent of the risk exposure the Municipality is faced with in order to allocate the appropriate response to that specific risk

1.4.2Example: Impact score X likelihood sore = risk rating that indicate whether the risk is High, Medium or Low.

Impact   X   Likelihood = Inherent Risk Rating

5   X   3   =   15

I	5	5	10	15	20	25
M	4	4	8	12	16	20
P	3	3	6	9	12	15
A	2	2	4	6	8	10
C	1	1	2	3	4	5
T		1	2	3	4	5

LIKELIHOOD

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

Inherent risk exposure takes no consideration of available controls (impact x likehood)

1.5 The following is an example of a rating table that can be utilized to categorize various levels of inherent risk.

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.

1.6 Residual Risks

1.6.1 Residual Risks is risks after controls are implemented. Control effectiveness is evaluated by considering the current controls and it is a critical aspect in determining residual risk rating. The following indicates the rating table that can be utilized to measure the effectiveness of current controls in mitigating risks.

1.7 Control Effectiveness

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

1.7.1 Control Effectiveness measures the controls

1.7.2 Formula for calculating residual risk value: residual risk = impact * likelihood

1.8 Risk Profile Legend

1.8.1 The following is an example of a rating table that shall be utilized to categorize various levels of residual risks (after controls are implemented).

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.

Annexure III

Template of Risk Register

Risk No.	KPA- Key Performance Area	Strategic Objectives –	Risk – Threat to achieving	Root Cause/Contributing	Consequences	Risk Assessment		Inherent Risk	Current Controls	Control Effectiveness	Risk Assessment		Residual Risk	Future Action – Treatment	Risk Owner	Action Owner	Due Date	Frequency of Reporting
						Impact	Likelihood				Impact	Likelihood						