



on the Go for Growth

RISK MANAGEMENT STRATEGY

2022-2023FY

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1. Glossary of terms

Throughout this document, unless otherwise stated, the words in the first column below have the meanings stated opposite them in the second column (and cognate expressions shall bear corresponding meanings):

Terms	Definition of terms
Action Owner	A person responsible for implementation of controls identified to reduce the risks.
Accident	Undesired event as a result of a risk behavior or high risk conditions resulting in personal injury, property damage and or service delivery interruption.
Action Date	Set date for the implementation of the mitigating measures
Criteria	A set of standard against which enterprise risk management can be measured in determining effectiveness. The eight enterprise risk management components, taken in the context of inherent limitation of enterprise risk management, represent criteria for enterprise risk management for each of the four objectives category.
Consequences	The negative/positive results after the occurrence of the risks
Current Controls	Management actions or working tools implemented to manage the risks
Control Effectiveness	This is a measure of how well management perceives the identified controls to be working.
Champion	A champion of risk management will promote its benefits, educate an organisation's management and staff in the actions they need to take to implement it and will encourage them and support them in taking those actions.
Compliance	Conforming to laws and regulations and policies and procedures applicable to an entity.
Control	Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Terms	Definition of terms
Deficiency	A condition within enterprise risk management worthy of attention that may represent a perceived, potential, or real shortcoming, or an opportunity to strengthen enterprise risk management to provide a greater likelihood that the entity's objectives will be achieved.
Enterprise Risk Management (ERM)	Enterprise risk management is a structured and consistent approach across the Municipality that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks (threats and opportunities) that the Municipality faces to create stakeholder value or Choices made under conditions of uncertainty, bound by acceptable levels of risk, designed to sustain / maximize stakeholder value.
Event	An incident or occurrence, from sources internal or external to an entity, which affects achievement of objectives.
Facilitating	Working with a group (or individual) to make it easier for that group (or individual) to achieve the objectives that the group has agreed for the meeting or activity. This involves listening, challenging, observing, questioning and supporting the group and its members
Hazard	The source of or exposure to danger.
Incident	An undesired event as a result of a risk behavior, or high-risk conditions, without resulting in loss, but has the potential for losses.
Impact	Result or effect of an event. There may be a range of possible impacts associated with an event. The impact of an event can be positive or negative relative to the entity's related objectives.
Inherent risk	This is the product of the probability of occurrence and the severity of outcome, prior to control measures. Overall risks before the intervention of management actions.
Key performance indicators (KPIs)	Key performance indicators (KPIs) are quantitative measurements, both financial and non-financial, of the process's ability to meet its objectives and of the process' performance. They are usually analyzed through trend analyses within an entity or through benchmarking against a peer of the

Terms	Definition of terms
	entity or its industry.
Likelihood/ Probability	The possibility that a given event will occur. Terms sometimes taken on more specific connotations, with "likelihood" indicating the possibility that a given event will occur in qualitative terms such as high, medium, and low, or other judgmental scales, and "probability" indicating a quantitative measure such as a percentage, frequency of occurrence, or other numerical metric.
Management	The members of the top management team i.e.: Municipal Manager, all senior managers and divisional Managers: Risk and MM's office and Mayor's office
Management Process	Series of actions taken by management to run the Municipality. Risk management is part of an integrated management process.
Operational Management	All senior Managers and divisional Managers that oversees the business directorate or Sub directorate within the Municipality.
Management Intervention	Management actions to overrule prescribed policies or procedures for legitimate purpose; management intervention is usually necessary to deal with non- recurring and non-standard transactions or events that otherwise might be handled inappropriately by the system (contrast this term with Management Intervention)
Objectives Category	One of four categories of entity objectives- strategic, effectiveness and efficiency of operations, reliability of reporting and compliance with applicable laws and regulations. The categories overlap, so that particular objective might fall into more than one category.
Objectives (Strategic)	Strategic – Use of "objectives": having to do with high level goals that are aligned with and support the entity's mission (vision
Objectives (Operational)	Used with "objectives": having to do with the effectiveness and efficiency of an entity's activities, including performance and profitability goals, and safeguarding resources against loss.
Operations	Used with "objectives": having to do with the effectiveness and efficiency of an entity's activities, including performance and profitability goals, and safeguarding resources against loss.
Opportunity	The possibility that an event will occur and positively affect the achievement of objectives.
Policy	Management's dictate of what should be done to effect control. A policy serves as the basis for procedure for is

Terms	Definition of terms
	implementation.
Process	Structured set of activities within an entity, designed to produce a specified output.
Risk Officer	A structured, consistent and continuous process across the whole organisation for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.
Risk Category	Grouping of risks with similar characteristics used in establishing the clients risk portfolio (see risk profile). Ultimately determined by the client, the characteristics used to define risk categories typically reflect the client's business model, industry or other factor that drives risk within the organization.
Risk register	A risk register is a risk management tool commonly used in risk management and compliance. It acts as a central repository for all risks identified by the organization and, for each risk, includes information such as source, nature, treatment option, existing counter-measures, and recommended counter-measures and so on. It can sometimes be referred to as a risk log.
Risk	The possibility that and event will occur and adversely affect the achievement of objectives. Risk is measured in terms of impact and likelihood. Risks are uncertain future events (threats and opportunities) that could influence the achievement of the goals and objectives of the Municipality.
Risk identification	Risk identification is a deliberate and systematic effort to identify and document the Institution'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.
Root Cause	Factors/elements that influences the occurrence of the risks
Risk owner	A person accountable for the management/mitigating of the identified risk
Residual risk	The remaining risk after management has taken action to alter the risk's likelihood or impact. Risk after considering the effectiveness of management's risk responses

Terms	Definition of terms
Risk Mitigation	The process of selecting and implementing measures to modify risk (encompasses risk avoidance, risk reduction, risk retention and risk transfer).
Risk Management	A continuous, proactive and systematic process, affected by a department's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the department, designed to identify potential events that may affect the department, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of department objectives.
Risk Assessment	The overall process of identifying, analyzing and evaluating risk. The risk assessment process should consider risks that are significant to the achievement of the Municipality's objectives. This is a continuous process, requiring regular reviews, as and when internal and external changes influence the Municipality's strategies and objectives.
Risk tolerance	Risk tolerances relate to the entity's objectives. Risk tolerance is the acceptable level of variation relative to achievement of a specific objectives, and often is best measured in the same units as those used to measure the related objective
Risk Strategy	The approach adopted for associating and managing risks based on the Municipality's objectives and strategies.
Risk Appetite	The level of risk that is acceptable to the board or management. This may be set in relation to the organization as a whole, for different groups of risks or at an individual risk level.
Risk Management Framework	The totality of the structures, methodology, procedures and definitions that an organization has chosen to use to implement its risk management processes.
Risk Management Processes	Processes to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives.
Risk Maturity	The extent to which a robust risk management approach has been adopted and applied, as planned, by management across

Terms	Definition of terms
	the organization to identify, assess, decide on response and report on opportunities and threats that affect the achievement of the organization's objectives.
Risk Responses	The means by which an organization elects to manage individual risks. The main categories are to tolerate the risk; to treat it by reducing its impact or likelihood; to transfer it to another organization or to terminate the activity creating it.
Reasonable assurance	The concept that enterprise risk management, no matter how well designed and operates cannot provide a guarantee regarding achievement of an entity's objectives.
Stakeholders	Parties that are affected by the entity, such as shareholders, communities in which the entity operates, employees, customers and suppliers
Uncertainty	Inability to know in advance the exact likelihood or impact of future events.
WDM	Waterberg District Municipality

2. INTRODUCTION

One of the most important mandates is the development and implementation of an integrated risk management strategy whose major objective is to encourage best practice within an evolving government services delivery strategy, while minimizing the risks and ensuring that government meets its objectives.

The adoption of the Municipal Finance Management Act and the Treasury Guidelines issued in terms of the Act infused the public services with an organization culture, which must add to it emphasis on external sanctions and include stronger internal controls with anticipatory management systems to check the abuse power, which is the central principle of risk management.

This is why risk management is central to managing an organization as a whole, and why risk management is integral to planning, organizing, directing and coordinating systems aimed at achieving organizational goals and objectives. Its objective is to force managers at every level to focus on the Government's objectives of service delivery and, to manage the related risks and become more responsive to the requirement of the recipients of their services.

3. PURPOSE AND BENEFITS OF RM STRATEGY

The purpose of this Risk Management Strategy is to outline the minimum requirements for Enterprise Risk Management within the Municipality in order to address the Council's expectations in terms of Enterprise Risk Management, MFMA and the Public Sector Risk Management framework.

The benefits of enterprise risk management to WDM encompass:

- 3.1 **Aligning risk appetite and strategy** – Management considers their risk appetite in evaluating strategic alternatives, setting related objectives and developing mechanisms to manage related risks.
- 3.2 **Enhancing risk response decisions** - ERM provides the rigor for management to identify alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- 3.3 **Reducing operational surprises and losses** –WDM gains enhanced capability to identify potential events and establish responses thereby reducing surprises and associated costs or losses.
- 3.4 **Identifying and managing multiple and cross-enterprise risks** – WDM faces a myriad of risks affecting different parts of the organization and ERM facilitates effective responses to the interrelated impacts and enhances an integrated response to multiple risks.

- 3.5 **Seizing opportunities** - By considering a full range of potential events, Management is positioned to identify and proactively realise opportunities.
- 3.6 **Improving deployment of capital** - Obtaining robust risk information allows Management to effectively assess overall funding requirements and enhance funding allocation.
- 3.7 **Ensuring compliance with laws and regulations** - ERM contributes to effective reporting and monitoring of compliance with laws and regulations and assists with the limitation of damage to WDM's reputation and associated consequences.
- 3.8 **Increasing probability of achieving objectives** - ERM helps management achieve WDM's performance and financial targets and assists with the prevention of loss of resources. Controls and risk interventions will be chosen on the basis that they increase the likelihood that WDM will fulfill its intentions / commitments to its stakeholders. Every employee of WDM has a part to play in Risk Management.

4. RISK MANAGEMENT STRATEGY OBJECTIVES

The Risk Management Strategy objectives are to:

- Create the right awareness and understanding of risk at all levels of the municipality.
- Install a culture of enterprise Risk Management and risk ownership being practiced as everyone's responsibility.
- Engage risk and manage them well within the risk appetite of the Municipality.
- Provide a sound basis for integrated risk management and internal control as components of good corporate governance
- Embed Enterprise Risk Management in the way the business is run.
- Embrace the recommendations of National treasury guidelines – also disclosing the level of compliance on an annual basis.
- Ensure that the Municipality complies with legislation, policies, and regulatory requirements
- Be able measure the effectiveness of enterprise Risk Management effort through the risk management process.
- Establish a culture of Risk Management within the Municipality
- Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefits the organisation in encouraged
- So as to ultimately become a risk intelligent organization by ensuring that:

5. RISK MANAGEMENT STRATEGY CONSIDERATIONS

The Municipality adopts a Strategy to implement Risk Management based on the following considerations, which are explained below in detail:

- 5.1 Risk Management Philosophy
- 5.2 Risk Management roles and responsibilities
- 5.3 Establishment of a Risk Management Committee
- 5.4 Education and awareness on risk management
- 5.5 Risk Management Process
- 5.6 Establishment an automated process of risk monitoring
- 5.7 Disclosure of risk
- 5.8 Independent assurance of the risk management process

5.1 RISK MANAGEMENT PHILOSOPHY

Enterprise Risk Management will provide the Municipality with superior capabilities to identify, assess and manage the full spectrum of risks and to enable staff at all levels to better understand and manage risk. This will provide the Municipality with:

- Responsible acceptance of risk
- Support
- Improved outcomes
- Strengthened accountability
- Enhanced stewardship

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

- Consider all forms of risk in decision making
- Retain ownership and accountability for risk and risk management at the business unit or other point of influence level. Risk management does not defer accountability to others.
- Strive to achieve best practices in enterprise risk management.
- Monitor compliance with policies and procedures and the state of enterprise risk management.

5.2. RISK MANAGEMENT ROLES AND RESPONSIBILITIES

Managing risks is the responsibility of the Municipal Manager in terms of the MFMA. This responsibility is delegated to management and, appropriate to their levels, to each employee in the Municipality.

Municipal Manager's responsibility

Municipal Manager shall be responsible for the following:

- Developing and communicating a management philosophy that reflects a corporate attitude and approach consistent with the risk management process, including the acceptance of risk taking by staff that is supported by a documented, pre- approved process; and
- Ensuring that operations are carried out within the establishment risk management strategy and that an effective and adequate system of internal controls is established and maintained.

Responsibility of senior Management

The senior Management responsible for:

- Integrating risk management into planning, monitoring and reporting processes, and the daily management of programs and activities.
- Approving and periodically reviewing the risk management strategy and plan, including the approval of acceptable risk levels based upon ongoing risk assessment; and
- Creating culture where risk management is encouraged practiced, rewarding and risk management infrastructure is provided.

Responsibility of Divisional Management

Management within each Directorates and Divisions are accountable for the management of risk to achieving business objectives. Directorates and Divisions need to set appropriate goals, objectives, targets and performance indicators for all their operations. This includes the responsibility for designing, implementing and monitoring the process of Risk Management and integrating it within the business management process of their business units. They need to meet applicable laws and regulations as a minimum and, where appropriate, apply best practice.

Management should build on and use existing business management structures and processes to embed Risk Management in their business units. Divisional responsibility in terms of Risk Management includes the following:

- Ensuring that all levels of employees collectively have the competence and responsibility through selection, retention, education, training and awareness to implement these guidelines.
- Identifying significant risks at a business section level.

- Evaluating the impact of these risks on the achievement of business objectives and the likelihood of the risk occurring.
- Deciding on the best management strategy to manage these risks to an acceptable level by focusing on the residual risk exposure.
- Ensuring that management processes (control) put in place to manage risks, are adequate and effective.
- Reporting on the above processes

Responsibility of each official

Each official is responsible for:

- Identifying and controlling risks appropriate to his/her position; and
- Reporting any risks to his/her immediate supervisor on a timely basis.

Collectively, all personnel have a responsibility for maintaining good internal control and managing risk in order to achieve personal, workgroup and strategic objectives.

Staff at operating units needs the appropriate knowledge, skills, information and authority to establish, operate and monitor the system of risk control.

This requires a good understanding of the municipality, its objectives, the risks it faces and the people we deal with. Everyone should be aware the risks they are empowered to take, which should be avoided and reported upwards.

The structures through which risk management will be reported are set out below.

5.3. ESTABLISHMENT OF A RISK MANAGEMENT COMMITTEE

- The Risk Management Committee should be established to address the development and implementation of risk management as well as playing oversight role. This shall be done through the development of a Charter outlining in detail the role and operations of the Committee.
- This committee will consist of senior management with responsibility over they key risk areas
- Employees appointed as Risk Committee members shall be trained in risk and audit discipline.

5.4. EDUCATION AND AWARENESS ON RISK MANAGEMENT

- In order to effectively develop a culture of risk management, staff, managers and officials with risk management responsibilities need to

be made aware of the enterprise risk management framework and corporate governance principles that underpin it. Risk awareness is a cultural trait that should prevail through out the Municipality, to enable managers to assess risks across the entire spectrum of the organization's activity.

- The Municipality must build risk management competencies in order for the initiative to succeed.

5.5. RISK MANAGEMENT PROCESS AND OVERVIEW

Enterprise Risk Management should be performed at all levels of the Municipality i.e. at an Organizational (strategic) level, at a divisional and operation level. The overall flow of the Enterprise Risk Management process will determine:

- A clear and unambiguous understanding of business objectives and purpose
- The risks, which can prevent the achievement of these objectives.
- The business environment and contributing factors that can cause the risks to occur.
- An evaluation of the inherent impact of the risks
- An evaluation of the residual impact based on the controls in place
- The control strategy, which is the response to the risk- This could be to Accept, Insure, Outsource, Avoid and/ or to Manage the risk- and the specific Enterprise Risk Management processes (controls) to manage the risk. Cost benefit considerations will be a factor in deciding on the most suitable response.
- A post control evaluation of the risk to determine the likelihood of assurance of the risk and the residual risk exposure.
- Any enhancement to controls, if the residual exposure is still not acceptable to management.
- Ongoing reporting on the risk profile of the organization

5.6. AN AUTOMATED PROCESS OF RISK MONITORING SHALL BE CONSIDERED

- To ensure sustainability of the risk management process in the Municipality, constant monitoring and learning should take place. Managers are expected to monitor their processes on a continual basis.
- Monitoring risk is crucial to the success of the whole strategy. Systems will be created in order to ensure regular and systematic monitoring of risk, and to generate accurate and reliable data, which become the subject of regular and vigorous review. Regular briefings on risks will reinforce the culture of risk management. Relevant

concise summary reports, which will keep management briefed and updated on progress made with implementation, will be produced.

- An electronic monitoring tool shall be implemented. Information generated through the system will be regularly communicated in order to build the culture of risk management in the Municipality.
- A risk register with all risks identified shall be developed and risks shall be grouped per DIRECTORATE with their assessment and controls. Moreover, a list of top ten risks shall be developed.
- A risk register shall also contain controls/mitigation strategy in place for conceived risks.
- Risks shall be monitored quarterly and the risk register shall be updated. The risk register shall be updated at least annually.

5.7. INTERNAL AUDIT SHALL DEVELOP AN INTERNAL CONTROL FRAMEWORK GUIDE

- Management has long sought ways to better control the enterprises they run. Internal controls are put in place to keep the organisation on course toward profitability goals and achievement of its mission, and to minimize surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations.
- King IV Report on Enterprise Governance issued in 2002 defines Internal control: as a process designed to provide reasonable assurance regarding the achievement of the organizational objectives with respect to :
 - Effectiveness and efficiency of operations
 - Safeguarding of the Company's assets (including information)
 - Compliance with applicable laws, regulations and supervisory requirements;
 - Supporting business sustainability under normal as well as adverse operating conditions;
 - Reliability of reporting and
 - Behaving responsibly to stakeholders.
- An internal control framework tailored to the specific circumstances of the Municipality, should be developed to guide Divisional Heads and introduce the Control Self Assessment (CSA) to support risk assessment, using the existing frameworks such as COSO: Committee of Sponsoring Organisations.

- Develop an internal control framework guide

5.8. DISCLOSURE OF RISKS

In order for risk management to work, it must be embedded into every day activities of the Municipality. It should be integrated into the reporting process. Risk should be part of every decision that is made, every objective that is set and every process that is designed.

(a) Every manager shall during the strategic planning meetings of the Directorate/ division disclose:

- That he/she is accountable for the process of risk management and the systems of internal control which are regularly reviewed for effectiveness, and in establishing appropriate risk and control policies and communicating this throughout the office.
- That there is an adequate and effective system of internal control in place to mitigate the significant risks faced by the unit concerned to an acceptable level.
- That there is a documented and tested process in place which will allow the Unit to continue its critical business process in the event of disastrous incident impacting on its activities. This is commonly known as business continuity plan and should cater for worst-case scenario.

(b) Where the senior manager cannot make any of the disclosures set out above he or she should state this fact and provide a suitable explanation.

5.9. INDEPENDENT ASSURANCE OF RISK MANAGEMENT PROCESS

The Municipality must ensure that an independent evaluation of the risk management process is conducted to prove reasonable assurance on its effectiveness. Criteria of the evaluation must be established by Internal Audit function and assurance of the processes surrounding key risks must be given.

6. ENTERPRISE RISK MANAGEMENT OVERVIEW

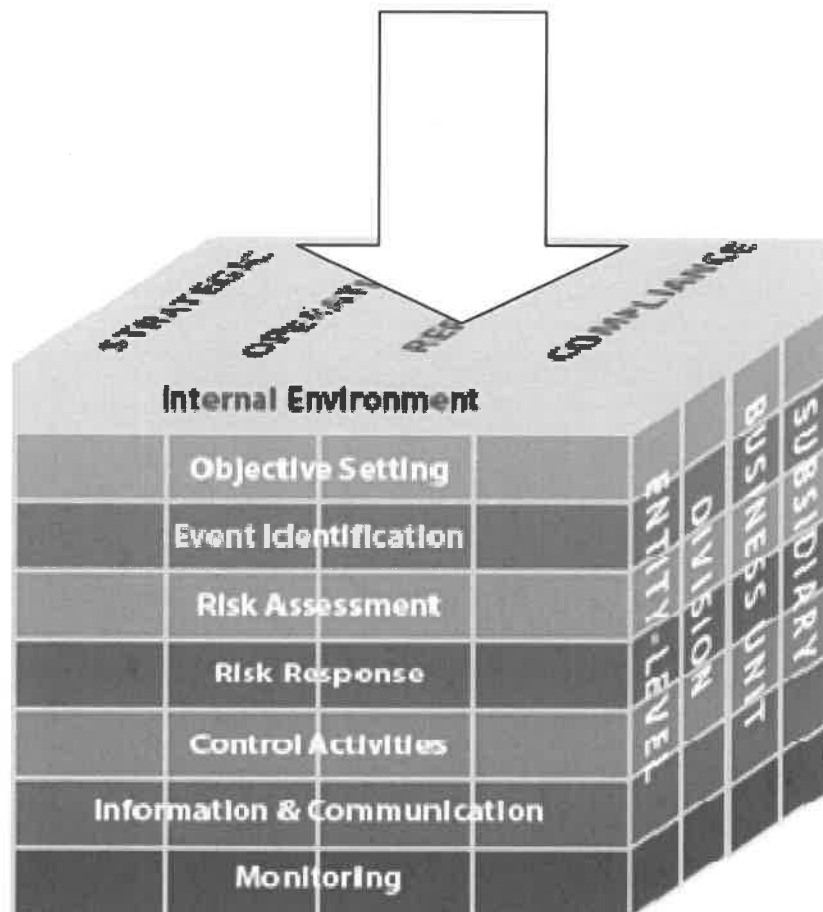
Enterprise Risk Management ultimately is about proactively identifying and understanding the factors and events that may impact the achievement of strategic and business objectives, then managing, monitoring and reporting these risks.

Good Enterprise Risk Management is not about eliminating or avoiding risks, but rather taking acceptable risks and managing them.

In carrying out Enterprise Risk Management the Municipality adopts the internationally developed and accepted COSO Enterprise Risk Management Framework.

This framework provides a structured approach to identifying and managing risk within risk appetite and tolerance levels. The key components of the framework are depicted in the diagram below and brief explanation of each is provided.

COMPONENTS OF RISK MANAGEMENT PROCESS



6.1 Internal/Control Environment

This is the foundation for risk management process within the organization .It provides the discipline and structure and also influences how strategy and objectives are established, department activities are structured, and how risks are identified, assessed and acted upon

The internal environment encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity's people, including risk management philosophy and risk appetite, integrity and ethical values and the environment in which they operate. This may include:

- Risk Management Policy
- Code of Conduct
- Code of Ethics
- Policy and Procedure
- Vision and Mission Statements
- Values Statement

It influences the design and functioning of control activities, information and communication systems, and monitoring activities.

6.2 Objective Setting

Objectives must exist before management can identify potential events affecting their achievement. ERM ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with the risk appetite.

The objective setting process shall commence at the formulation of the Integrated Development Plan (IDP) for the Municipality. Understanding the objectives in the IDP are the first steps in the Enterprise Risk Management process. Without this understanding, risks that could prevent the achievement of objectives cannot be identified completely. These objectives should be aligned throughout the Municipality to ensure that direction and focus of the different levels of management are fully integrated. Objectives need to flow from a strategic level, to a business and ultimately a process level to ensure this alignment as set out below.

- **Strategic:** Enterprise objectives that are agreed by the Municipality;
- **Operational:** Objectives that are set by the divisions including both enablement and operating divisions relating to effectiveness and efficiency

- of the municipality's operations, including performance and service delivery goals
- **Reporting** – relating to the effectiveness of the municipality's reporting. They include internal and external reporting and may involve financial or non-financial information;

Risk Appetite

The risk appetite is the amount of risk the Municipality is willing to accept and what risks it will not accept. The risk appetite is expressed in inherent (prior management action) or residual (after management action) terms.

Inherent/Residual risk is the product of Impact and Likelihood. Inherent risk exposure is the product of Impact and Likelihood prior controls whereas Residual Risk exposure is after consideration of controls.

6.3 Risk/Event Identification

Internal and external events affecting achievement of an entity's objectives must be identified, distinguished between risks and opportunities. Opportunities are channeled back to management's strategy or objectives-setting processes.

EXTERNAL EVENT	INTERNAL EVENT
Economic	Infrastructure
Natural environment	Personnel
Political	Process
Social	Technology
Technological	

The Municipality has certain objectives i.e. goals it has set for itself to achieve such as goals and objectives in the IDP document. Risks are obstacles that can prevent the Municipality from achieving these objectives. Therefore, having clearly understood the business objectives at any level of the Municipality it is important to identify the risks that could prevent the achievement of the goals of the IDP.

Risks need to be identified by relevant management and staff.

The following information should be obtained for each risk:

- A description of the risk as well as an understanding of which objective it threatens
- The allocation of the risk to the relevant risk category.

- An understanding of the risk experience in the last two years i.e. analysis of the extent to which the risk has occurred, with examples of the occurrence and the impact.

Risk identification is not a once off process but a continuous process.

Change should be identified and assessed on a regular basis by management and staff by using the following techniques as said:

- Management meetings;
- Financial information;
- Scenario planning. For example before a new initiative is taken e.g. unblocking of projects, a scenario planning exercise should be conducted;
- Research of change in the sector;

Identifying external and internal factors that influence events is useful to effective event identification.

Once major contributing factors are identified, management can consider their significance and focus on events that can affect the achievement of objectives.

Risk identification questions may include;

- What can happen?
- Where can this happen?
- When can it happen?
- How can it happen?
- Why is it likely to happen?
- What/who will be impacted?
- How severe will be the impact?
- What controls are currently in place to prevent/limit this occurrence?

6.4 Risk Assessment

Atleast once a year or (as and when required), the Municipality will undertake a thorough re-assessment of its risks at all levels using the following methodology.

A risk assessment is the process by which the risks to be managed in an organization are identified. Comprehensive identification using a well-structured systematic process is critical, because risks not identified are never further analyzed and potentially are not managed.

There are many different processes and methodologies in use by which risks can be identified i.e. risk workshops, interviews, questionnaires and surveys, research, control and risk assessments.

At a minimum a risk assessment should result in:

- Identification of relevant risks towards the achievement of objectives; and
- The prioritisation of risks, which often necessitates estimating the timing, magnitude and probability of risk occurrence.

Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis. Inherent risk is the risk to the Municipality in the absence of any actions management might take to alter either the risk's likelihood or impact. Residual risk is the risk that remains after management's response to the risk. In estimating likelihood and impact of potential events, whether inherent or a residual basis, the following form of measurement is used:

6.4.1 Impact

Risks that have a potential to impact the Municipality's strategic objectives (i.e. risks that not only would impact the divisional objectives but also potentially the strategic objectives) should be rated in terms of the rating scale below. The qualitative and quantitative guidelines below are there to assist with the rating of the risks. Impact of the risk should be assessed after taking into account current controls and actions to mitigate the risk.

6.4.2 Likelihood

Each risk should be rated in terms of the likelihood of the risk occurring as per the guidelines provided below. Likelihood of the risk occurring should be assessed after taking into account current controls and actions to mitigate the risk.

6.5 Risk Response

Management has to decide whether to accept the risk, reduce the risk, share (insure or outsource) the risk or avoid the risk altogether. Depending on the risk response strategy selected, management need to consider additional actions/ controls to mitigate the risk to an acceptable level. When identifying possible enhancement, cost benefit considerations need to be taken into account. Management selects the following risk responses – avoiding, accepting, reducing or sharing risk- developing a set of actions to align risks with the entity's risk tolerance and risk appetite.

Illustrative Risk Responses by Response Type:

Avoidance	Sharing
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➤ Disposing of a business unit, product line, geographical segment ➤ Deciding not to engage in new initiatives/activities that would give rise to the risks	➤ Insuring significant unexpected loss such as fixed assets ➤ Entering into joint venture/partnership ➤ Entering into syndication agreements ➤ Outsourcing business processes ➤ Sharing risk through contractual agreements with customers, vendors, or other business partners
Reduction	Acceptance
➤ Reducing the likelihood of occurrence or the severity of the loss should it occur. ➤ Establishing operational limits ➤ Establishing effective business processes ➤ Enhancing management involvement in decision making, monitoring ➤ Reallocating capital among operating units	➤ Management accepts the risk and makes an informed decision to accept both the impact and likelihood of risk events but with intention to manage and monitor (treat) the risks. ➤ "Self-insuring" against loss ➤ Accepting risk as already conforming to risk tolerances

6.6 Control Activities

Policies, procedure and systems are established and implemented to help ensure the risk responses are effectively carried out. This may include:

- Implementation strategies and plans
- Delegation of Authority Document
- Authorization limits for expenditure payments
- Approvals and Authorizations
- Reconciliations
- Segregation of Duties

6.7 Information and Communication

Relevant information is identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across and up the entity. Information is needed at all levels of an organization to identify, assess, and respond to risks, and to otherwise run the entity and achieve its objectives.

Technology plays a critical role in enabling the flow of information in an organization, including information directly relevant to enterprise risk management. In some organizations, information is managed separately by unit or function, whereas others have integrated systems.

“Dashboard”- style reports are used by organizations to present information necessary for enterprise risk management. These dashboard reports enable management to quickly determine the extent to which the entity’s risk profile is aligned with risk tolerances.

6.8 Monitoring

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

Having identified the response strategy, continuous monitoring need to occur to ensure that the desired response strategy for a risk is implemented successfully. Monitoring is arguably the most important step of Enterprise Risk Management as it is a step which, when strictly adhered to, provides early warning of where risks may materialize.

The following techniques should be used in WDM to assist with monitoring:

- Identification and tracking of risk indicators that can act as an early warning system;
- Internal Audit can be used to provide assurance regarding the adequacy and effectiveness of mitigating controls;
- Progress on risk mitigation should be discussed on regular management meetings;
- Regular risk reporting to the Accounting Officer.

Monitoring activities should focus on:

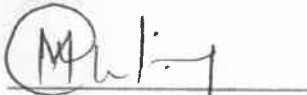
- **Monitoring of risk action plans** - Risk action plans need to be monitored on an ongoing basis to ensure the necessary actions are implemented on schedule and as intended.
- **Monitoring of controls** - The effective operation of existing controls as well as their cost effectiveness needs to be evaluated regularly. Evaluations may include management reviews, self assessment reviews and third party reviews as appropriate. Internal audit should also perform periodic reviews on existing controls as well as the implementation of necessary additional controls on a periodic basis.

- **Monitoring of new and emerging risks** - The risk profile of any organisation will change over time. Thus there is a need to monitor and review the risk profile of the Municipality to ensure that it remains relevant and complete. Changes in strategy, the legal and regulatory environment, restructuring, loss of key personnel, significant control deficiencies, fraud, changes in business objectives will require an immediate review of municipal risk profiles.

7. APPROVAL AND EFFECTIVE OF THE STRATEGY

The Policy shall come into effect immediately upon approval by the Council of Waterberg District Municipality

Recommended by



Nchabeleng M-F

Chairperson Risk Management Committee:

Date

29/09/2022

Approved by:



P RAPUTSOA
Municipal Manager

Date

29/09/2022

Adopted by Council at its meeting held on the 29 September 2022

Signed at Modimolle **Resolution No:** A068/2022

APPENDIX A

RISK REGISTER TEMPLATE

Risk number	Objectives	Risk category	Risk descriptions	Root Cause/s	Consequence	Action Owner	Rating risk			Current Controls	Control Effectiveness	Residual risk exposure	Action Plan to Mitigate the Risk	Action date
							Impact	likelihood	Inherent Risk					

APPENDIX B

TERMS USED IN THE PREPARATION OF RISK REGISTER AND RISK MATRIX

RISK MATRIX

Factors used in Strategic/ Operational Risk Analysis

Each risk is evaluated in terms of potential loss/ impact, likelihood, inherent risk exposure index, perceived control of effectiveness and residual risk exposure.

✓ Risk Validation

During the risk assessment workshop, existing risks are discussed and participants are requested to confirm whether risks previously identified remained valid. Participants are also tasked to identify any risks which may not have been identified previously, including emerging risks.

✓ Risk rating and ranking

Risks are rated and ranked (prioritised) based on the inherent likelihood (probability) of occurrence and the inherent impact, should that risk materialise.

✓ Rating on Inherent Impact:

The potential magnitude of the impact on the Municipality's operations should the risk/threat actually occur. This must be assessed on the basis that management have no specific controls in place to address the risk/threat, **i.e. without any controls in place.**

Qualitative assessment of potential loss (Impact)

IMPACT VOTING MATRIX -: Impact was rated on a scale of 1 to 5 as follows;

Impact	Rating	Criteria/ Examples
Critical	5	- Major problem from which there is no recovery - Objectives will not be achieved - Significant loss to credibility or integrity
Major	4	- Event that requires a major realignment of how service is delivered - Significant event which has a long recovery period - Reduce the ability to meet objectives
Moderate	3	- Disruptive to normal operations but a limited impact on the objectives.
Minor	2	-Can be dealt with at department level but requires but requires Executive notification -Delay in funding or change in funding criteria -Stakeholders or client would take a note
Insignificant	1	-Can be dealt with internally at the department level -No escalation of the issue required -No media attention -No or manageable stakeholder or client interest

Qualitative assessment of probability of occurrence (Likelihood)

Likelihood voting matrix - Likelihood was rated on a scale of 1 to 5 as follows:

Rating	Likelihood	Criteria	Probability
5	Common	It is expected to happen. Will certainly happen this fiscal year or during the three year period of the Service Plan.	80% to 100% or once a year or more frequently
4	Likely	We expect it to happen. It would be surprising if this did not happen.	61% to 79% or once every 3 yrs
3	Moderate/ Possible	Just as likely to happen as not. We don't expect it to happen, but there is a chance.	40% to 60% or once every 5 yrs
2	Unlikely	Not anticipated. We won't worry about it happening.	11% to 39% or once every 15 years
1	Rare	It would be surprising if this happened. There would have to be a combination of unlikely events for it to happen.	0 to 10% or once every 25 yrs

Inherent risk exposure (impact x likelihood)

Inherent risk is the product of the impact of a risk and the probability of that risk occurring. The value for inherent risk assists management to establish relativity between all the risks/threats identified for the group's strategic management process. This indicator may be used to assign/measure the level of management effort/resources required to control the relevant risks and to determine the level of focus required.

Inherent risk exposure

Category	Category Description	Factor
Maximum	Unacceptable level of risk-This risk should be terminated / insured / transferred	50 +
High	Unacceptable level of risk-This risk should be insured / controlled (High level of control intervention required to achieve an acceptable level of residual risk)	35 - 50
Medium	This risk will typically be controlled (treated)	25 - 35
Low	Management will make an informed decision as to whether this risk must be controlled or absorbed by the business unit. The decision will be based on a "cost vs benefit" approach	15 - 25
Minimum	Impact and probability is insignificant. This risk may be tolerated, and cost of losses will be absorbed by the operating unit	1 - 15

Control Identification and Validation

Controls are any methods, procedures, equipment or other actions implemented by management (either consciously or unconsciously) that provide additional assurance that the process objectives will be achieved. Each risk may require one or multiple controls in order to effectively reduce the risk/threat to a level, which is acceptable to management and the other stakeholders. The control must contribute towards the achieving of the objectives.

Control Effectiveness: This is a measure of how well management perceives the identified controls to be working.

Qualitative assessment of Perceived Control Effectiveness

Category	Category Description	Factor
Very good	Risk exposure is effectively controlled and managed	0.20
Good	Majority of risk exposures is effectively controlled and managed	0.40
Satisfactory	There is room for some improvement in the control system	0.65
Weak	Some of the risk exposures appears to be controlled, but there are major deficiencies	0.80
Unsatisfactory	Control measures are ineffective	0.90

Residual Risk Status (Inherent risk X control effectiveness)

This is the value of risk that the organisation is exposed to, taking into account the potential impact of the risk, the probability of the risk occurring and the related controls which exist to manage that risk. Residual risk/exposure is therefore the product of the inherent risk and the control effectiveness factor. This information assists decision makers in assessing the acceptability of the residual risk/exposure and in deciding whether further management action is required to effectively control the risk.

Residual risk exposure

Category	Level	Category Description	Rating	Factor
Maximum	Immediate action required	Management should take immediate action to reduce residual risk exposure to an acceptable level	Priority 1	+25
High	Action required	Management should implement more controls or increase the effectiveness of current controls to reduce the residual risk to a more acceptable	Priority 2	17.5 - 25

		level		
Medium	Monitor	Management should constantly monitor the risk exposure and related control effectiveness	Priority 3	12.5 –17.5
Low	Acceptable	The residual risk exposure is acceptable to the Municipality	Priority 4	7.5 – 12.5
Minimum	Reduce control	Management may consider reducing the cost of control	Priority 5	1 – 7.5

APPENDIX C

THE RISK MANAGEMENT REPORT TEMPLATE

The Risk Management reports shall be structured in terms of the following example;

EXAMPLE

1. HEADING

OFFICE OF THE MUNICIPAL MANAGER

QUARTELY RISK MANAGEMENT PROGRESS REPORT AS AT (INDICATE THE REPORTING QUARTER)

2. THE PURPOSE OF REPORTING

3. STATUTORY REQUIREMENTS

4. BACKGROUND

5. EXECUTIVE SUMMARY PROGRESS UPDATE ON;

5.1 RISK MANAGEMENT

5.2 FRAUD MANAGEMENT

6. MANAGEMENT SPECIAL REQUESTS

Any request by management that does not fall within the annual risk management implementation plan.

7. CHALLENGES

Report on the challenges encountered during the implementation of Risk Management plan.

8. RECOMMENDATIONS

Provide analysis and give suggested remedial controls/way forward

9. CONCLUSION

10. ENDORSEMENT