



on the Go for Growth

RISK MANAGEMENT STRATEGY FY 2014/15

Risk Management Strategy
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1 Introduction

The underlying premise of Enterprise Risk Management (ERM) is that every entity exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. ERM enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Value is maximised when management sets objectives to achieve an optimal balance between growth and related risks, and effectively deploys resources in pursuit of the entity's objectives.

This document sets out Waterberg District Municipality's (WDM) Enterprise Risk Management Policy Framework. It describes WDM's risk management:

- Policy;
- Objectives;
- Benefits;
- Principles;
- Responsibilities and
- Guidelines.

2 Definition

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

“Enterprise Risk Management is a process, effected by the Board(Council), Executive Management and personnel, applied in strategy setting and across the operations of the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”¹

3 Background to Waterberg District Municipality ERM Policy Framework

It is acknowledged that the new style of risk management in the King III Code of Corporate Governance (King III) and the Municipal Finance Management Act (MFMA) addresses a much wider spectrum of risk than in the past. In addition, the corporate governance drivers behind risk management today require new ways of reporting and monitoring WDM's risk exposures.

The Municipal Manager is responsible and accountable for directing and monitoring WDM's risk management activities and related performance in a structured framework. All core / support services support the Municipal Manager to maintain an effective system of risk management.

The risk management standards herein set out the rules embedded within WDM's risk management policy framework. These are the mandatory requirements established by the Municipal Manager for the management of risk in WDM. The standards are based on current recognised business practices and standards and corporate governance principles.

It is important to note that the Enterprise Risk Management Policy Framework is, of necessity, an evolving document. The contents of the framework reflect the current risk management requirements of WDM. Future versions of this document will reflect advances and developments in WDM's risk management strategies and processes. The document must be reviewed and updated annually.

4 Risk Management Policy

At Waterberg District Municipality (WDM) we are committed to the optimal management of risk in order to achieve our vision, our principal tasks and key objectives and to protect our core values.

The Council has committed the organisation to a process of risk management that is aligned to the principles of the King III Report and the Municipal Finance Management Act (MFMA). The features of this process are outlined in WDM's Risk Management Strategy. It is expected that all directorates / sub-directorates, operations and processes will be subject to the risk management strategy.

The Council recognises that risk in WDM is a complex and diverse concept, and that there are many directorates / sub-directorates of the entity working at managing risk exposures. It is the intention that these directorates / sub-directorates will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Different risk related or assurance provider functions will align their various goals and reporting processes into one cohesive and structured framework. All of WDM's business, financial, technological, legal and operational risk exposures, whether they are insurable or not, will be identified, assessed, and appropriately managed.

The risk strategy considers various risk functions as it determines aspects such as risk tolerance limits and capital allocation processes.

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

Effective risk management is imperative to an entity with our risk profile. The realisation of our integrated development plan depends on us being able to take calculated risks in a way that does not jeopardise the direct interests of stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our business environment, as well as take informed decisions under conditions of uncertainty.

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

5 Objectives of ERM

The objectives of this framework are to help Management make informed choices which:

- Provide a level of assurance that current significant risks are effectively managed;
- Improve business performance by assisting and improving decision making and planning;
- Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the organisation is encouraged; and
- Provide a sound basis for integrated risk management and internal control as components of good corporate governance.

6 Benefits of ERM

The benefits of enterprise risk management to WDM encompass:

- **Aligning risk appetite and strategy** – Management considers their risk appetite in evaluating strategic alternatives, setting related objectives and developing mechanisms to manage related risks.
- **Enhancing risk response decisions** - ERM provides the rigour for management to identify alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- **Reducing operational surprises and losses** – WDM gains enhanced capability to identify potential events and establish responses thereby reducing surprises and associated costs or losses.
- **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.
- **Seizing opportunities** - By considering a full range of potential events, Management is positioned to identify and proactively realise opportunities.
- **Improving deployment of capital** - Obtaining robust risk information allows Management to effectively assess overall funding requirements and enhance funding allocation.
- **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.
- **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 Enterprise Risk Management.

7 Principles of ERM

The principles contained in this strategy will be applied at both corporate and operational levels within the entity.

WDM's risk management strategy will be applied to all operational aspects of the entity and will consider external strategic risks arising from or related to our partners in projects, government departments, the public and other external stakeholders, as well as wholly internal risks.

Our positive approach to risk management means that we will not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalising on corporate strengths.

All risk management activities will be aligned to WDM values and principles, objectives and organisational priorities, and aims to protect and enhance the reputation and standing of the organisation.

Risk analysis will form part of organisational strategic planning, business planning and investment / project appraisal procedures. Risk management will be founded on a risk-based approach to internal control, which is embedded in day-to-day operations of the organisation.

Our risk management approach will inform and direct our work to gain confidence on the reliability of our risk controls strategies and therefore provide assurance. Managers and staff at all levels will have a responsibility to identify, evaluate and manage or report risks, and will be equipped to do so.

Risk Management in the entity should be proactive and reasoned. Strategic and operational risks should be identified, objectively assessed, and, where this is the appropriate, response actively managed.

The aim is to anticipate, and where possible, prevent risks resulting in unwanted events rather than dealing with their consequences. However, for some risks where the likelihood of a risk occurring is remote, but the consequences on the entity is high, we will ensure that business continuity plans are developed and authorised by the Municipal Manager. This will allow us to contain the negative effect of unlikely events, which might occur.

In determining appropriate risk management controls, the cost of control / risk management, and the impact of risks occurring will be balanced with the benefits of reducing risk. This means that we will not necessarily set up and monitor controls to counter risks where the cost and effort are grossly disproportionate to the impact or expected benefits.

We also recognise that some risks can be managed by transferring them to a third party, for example by insurance. In the current climate it is rare to effectively / fully transfer risks by contracted arrangements.

8 Legislative requirements

Since 2003 this practice has been further supported by the Municipal Finance Management Act which stipulates in Section 62 that:

"The Municipal Manager...has and maintains effective, efficient and transparent systems:

- *i) of financial and risk management and internal control; and*
- *ii) of internal audit operating in accordance with any prescribed norms and standards"*

The extension of the general responsibilities, in terms of Section 79 of the MFMA, to all Top Management is a cornerstone in the institutionalization of risk management in the public service. It establishes responsibility for risk management at all levels of management, extending it beyond the roles of the Accounting Officer, the internal audit units or the Audit Committee in this regard.

The King report on Corporate Governance also reflects on risk management as an integral part of strategic and operational activities. King 111 Code states *"The Board is responsible for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process."*

The Institute of Internal Auditors defines risk as *"...the uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood."*

Risk management is defined as:

" a continuous, proactive and systematic process, effected by a entity's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the entity, designed to identify potential events that may affect the municipality, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of entity's objectives."

Risk management is more than an exercise in risk avoidance. It is as much about identifying and utilizing opportunities as avoiding or mitigating losses.

9 Risk Management Responsibilities and Structures

All personnel have a responsibility for maintaining good internal control and managing risk in order to achieve personal, workgroup and corporate objectives. Collectively, 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 entity, its objectives, the risks it faces and the people we deal with. Everyone should be aware of 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. Detailed guidelines on roles and responsibilities are provided in Appendix A.

9.1 Committee responsibilities

Ref.	Activity	Responsibility	Frequency
01	The Risk Management Committee will meet on a quarterly basis.	Committee Chairperson	Quarterly
02	The Risk Management Committee will review risk management progress on a quarterly basis.	Committee Chairperson Municipal Manager	Quarterly

9.2 Reporting responsibilities

Ref.	Activity	Responsibility	Frequency
04	The WDM Risk Management Committee will include statements regarding risk management performance in the annual report to stakeholders.	Committee Chairperson	Annually
05	The Risk Management Committee will submit a risk management report to the Audit Committee on a quarterly basis. The report will focus on the following: - The top strategic risks facing WDM (All extreme and high inherent risk exposures); - The strategic risks per directorate	Committee chairperson Risk Officer	Quarterly Quarterly

Ref.	Activity	Responsibility	Frequency
	department identified risks); and Any risk developments (changes) / incidents / losses		
06	The Risk Manager will be responsible for developing standard risk management reporting templates, and collate risk management information for submission at all levels.	Risk Officer	As scheduled

9.3 Risk assessment responsibilities

Ref.	Activity	Responsibility	Frequency
07	The Council will independently review the key risks of WDM at least once a year.	Chairman of the Council (Speaker)	Annually
08	The Risk Officer will arrange for WDM's key risks to be formally re-evaluated once a year.	Risk Manager	Annually
09	Each directorate / department Management Committees will formally reassess the top 10 risks annually (in their environment) and report on the top 10 risks.	Senior Managers / Managers	Annually
10	All Directorates will review risk registers at each meeting and update the register's contents to reflect any changes without formally reassessing the risks.	All Departments	As scheduled
11	The Risk Manager will be responsible for the facilitation of all risk assessments, and populating the risk registers.	Risk Officer	As scheduled

9.4 Control responsibilities

<i>Ref.</i>	<i>Activity</i>	<i>Responsibility</i>	<i>Frequency</i>
12	The Chairperson of the Audit Committee will consider Internal Audit and management's report concerning the effectiveness of internal controls at least once a year.	Audit Committee Chairperson	Annually
13	The Risk Officer will report to the Audit Committee and Risk Management Committee regarding the performance or effectiveness of internal controls or mitigating strategies for those risks in the risk registers.	Risk Officer	Quarterly
14	The directorates / department will report to the Risk Management Committee regarding the performance of internal controls for those risks in the operational risk registers.	Senior Managers / Managers	Quarterly
15	All risk registers will contain action plans for improving risk controls and risk interventions. Each Department will review progress made with these action plans.	All Department	As scheduled

9.5 Governance responsibilities

<i>Ref.</i>	<i>Activity</i>	<i>Responsibility</i>	<i>Frequency</i>
16	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; • Co-ordinate the implementation of action plans for the risk; • Reporting on any developments	Risk Owners	As scheduled

<i>Ref.</i>	<i>Activity</i>	<i>Responsibility</i>	<i>Frequency</i>
	regarding the risk.		
17	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.	Manager: Internal Audit	Annually and as scheduled
18	The Internal Audit function will formally review the effectiveness of WDM's risk management processes once a year.	Manager: Internal audit	Annually
19	Each risk register will include a review of the risks and controls associated with safety, health, environment and quality responsibilities.	All Departments	As scheduled

A Risk Management Guidelines

A.1 Accountability and responsibility guidelines

A.1.1 Roles and responsibilities of the Council and Municipal Manager

A.1.1.1 The Council, Municipal Manager and Top Management are accountable for risk management

- The Council together with the Municipal Manager and Departmental Managers are responsible for the identification of major risks, the total process of risk management, as well as for forming its own opinion on the effectiveness of the process. Management is accountable to the Council for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the entity;
- The Council, Municipal Manager and Departmental Managers should identify and fully appreciate the business risk issues and key performance indicators affecting the ability of the entity to achieve its strategic purpose and objectives; and
- The Council, Municipal Manager and Heads of Directorates should ensure that appropriate systems are in place to manage the identified risks, measure the impact and to proactively manage it, so that the municipality's assets and reputation are suitably protected.

A.1.1.2 The Council and Municipal Manager will provide stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored

The Council together with the Municipal Manager should receive credible and accurate information regarding the risk management processes of the municipality in order to give the necessary assurance to stakeholders. The reports from the Audit Committee and Management Committees must provide an evaluation of the performance of risk management and internal control. The Council together with the Municipal Manager should ensure that the various processes of risk management cover the entire spectrum of corporate risk.

The assurance process includes statements regarding the appropriateness of the municipality's risk / reward trade-off.

Because of the fluid nature of risk in the municipality, it is imperative that risk is confronted in a systematic and structured manner. In our complex environment where there are literally thousands of technical, process and strategic risks, it is vital that the management of risk is undertaken in a formalised manner. The Council and Municipal Manager should provide stakeholders with the assurance that management has a pre-emptive approach to risk.

A.1.1.3 The Council and Municipal Manager will maintain a formal risk policy for the entity

Stakeholders need to understand the Council and Municipal Manager's standpoint on risk. The Council together with the Municipal Manager should therefore maintain the Municipality's formal risk policy, which decrees the Municipality's approach to risk. The risk policy statement underpins the development of the Municipality's enterprise risk management process. The policy can be used as a reference point in matters of dispute and uncertainty such as risk tolerance and appetite for risk.

A.1.1.4 The Council and Municipal Manager will formally evaluate the effectiveness of entity's risk management process once a year

The Council together with the Municipal Manager will make up its own mind regarding the effectiveness of the Municipality's risk management processes. Success with risk management will be evaluated from risk committee reports, variance reports, and speed of progress, organisational risk culture, unexpected losses, internal control effectiveness and business success. The Council evaluations will be formally recorded in the minutes of Council meetings.

It is recognised that risk management has evolved into a complex management discipline in its own right. The Council's evaluation of risk management, therefore, will be supplemented by an independent review to be performed by the Municipality's Internal Audit function.

The annual review will be undertaken by qualified staff, which is able to review all aspects of risk management.

Management must ensure that sufficient independence is maintained in conducting the annual review. Assurance of the processes surrounding key risks must be given. This implies some knowledge of the processes of risk management and assumes that they have been witnessed to some degree. The observation of risk management processes should not, therefore, have had operational participation.

Management must ensure that sufficient independence is maintained in conducting the annual review. Criteria for the evaluation have been established (Refer to **Appendix B** for the tables to be considered for the assessment). Assurance of the processes surrounding key risks must be given. This implies some knowledge of the processes of risk management and assumes that it has been witnessed to some degree.

A.1.1.5 The Council and Municipal Manager will confirm that the risk management process is accurately aligned to the strategy and performance objectives of the entity

The Council together with the Municipal Manager will ensure that the risk management processes address risk in a balanced way, giving due attention to all types of risk. The Council together with the Municipal Manager will evaluate whether appropriate resources are being applied to the management of strategic risks, reputation, customer risk, financial risk, operational, regulatory, and technical risks.

The Council together with the Municipal Manager will evaluate whether risk management processes are aligned to the strategic and performance objectives of the municipality. A balanced perspective of risk and risk management is required in proportion to the weighting of potential risk impact across the Municipality.

The Municipal Manager must ensure that there is a future-looking orientation included in the consideration of risk.

A.1.1.6 The Risk Management Committee will monitor the entity's risk management processes

The Risk Management Committee will be responsible for addressing the corporate governance requirements of risk management and monitoring the Municipality's performance with risk management. The Risk Management Committee has a defined mandate and terms of reference, which covers the following aspects:

- Constitution;
- Purpose;
- Responsibilities and duties;
- Authority;
- Membership; and
- Meetings.

The Risk Management Committee will meet at least on a quarterly basis.

A.1.2 Risk management committee

The risk management committee will be responsible for addressing the corporate governance requirements of risk management and monitoring the Municipality's performance with risk management. The committee has a defined mandate and terms of reference, which covers the following aspects:

- Constitution;
- Membership;
- Authority;
- Terms of reference; and
- Meetings

The risk management committee will meet at least on a quarterly basis.

Functions and responsibilities of the risk management committee include:

- Establishment and monitoring of the implementation of the risk management strategy;
- Ensuring that the responsibilities and co-ordination of risk management are clear;
- Advising the Council and Municipal Manager on urgent risk management issues and required initiatives as part of its quarterly reporting process;
- Overseeing the implementation and maintenance of the ongoing process of risk identification, quantification, analysis and monitoring throughout the Municipality;
- Ensuring that the risk management induction, training and education programs are targeted appropriately for all levels of personnel and that it is established and implemented;
- Reviewing and recommending actions for improvement regarding outstanding actions on risk management plans;
- Evaluating the risk profile of the Municipality as well as for major projects and new ventures, requiring the approval of the Council;
- Reviewing issues for consideration as identified by the Council and Risk Management Committee;
- Assist with the development of an integrated approach to financing and managing risk to minimise cost;

- Facilitating the sharing of post loss analysis information and thereby improving prevention and control measures;
- Reviewing the risk assessments on a quarterly basis to take note of the material risks to which the Municipality may be exposed and consider, notes and if necessary, comments on the strategy for managing those risks;
- Considering, notes and if necessary, comments on management responses to significant risks; and
- Keeping abreast of all changes to the risk management and control system and ensures that the risk profile and common understanding is updated, as appropriate.

A.1.3 Roles and responsibilities of Management

Management is accountable to the Municipal Manager for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the Municipality.

The Municipal Manager is responsible for appointing a Risk Manager to assist management in discharging its responsibilities. **This could however be a delegated function.**

More specifically Management is responsible for:

- Designing an ERM programme in conjunction with the Risk Manager;
- Deciding on the manner in which risk mitigation will be embedded into management processes;
- Inculcating a culture of risk management in the Municipality;
- Providing risk registers and risk management reports to the Risk Manager pertaining to risk and control;
- Identifying positive aspects of risk that could evolve into potential opportunities for the Municipality;
- Assigning a Manager to every key risk for appropriate mitigating action and to determine an action date;
- Viewing risk as an opportunity by applying the risk / reward principle in all decisions impacting upon the Municipality;
- Utilising available resources to compile, develop and implement plans, procedures and controls within the framework of the Municipality's ERM Policy to effectively manage the risks within the Municipality;

- Ensuring that adequate and cost effective risk management structures are in place;
- Identifying, evaluating and measuring risks and where possible quantifying and linking each identified risk to key performance measurement indicators;
- Developing and implementing risk management plans including:
 - Actions to optimise a risk / reward profile to maximise reward with risk contained within the Council and Municipal Manager's approved risk tolerance;
 - Implementation of cost effective preventative and contingent control measures; and
 - Implementation of procedures to ensure adherence to legal and regulatory requirements.
- Monitoring of the ERM processes on both a detailed and macro basis by evaluating changes, or potential changes to risk profiles;
- Implementing and maintaining adequate internal controls and monitor their continued effectiveness;
- Implementing those measures as recommended by the internal / external auditors, which, in their opinion, will enhance control at reasonable cost; and
- Reporting to the Audit / Risk Committee on the risk process and resultant risk / reward profiles.

A.1.4 Risk Management Coordinators

Responsibilities of the Risk Management Coordinators include amongst others:

- The Risk Management Coordinator will assist the Risk Officer with updating of risk reporting information; and
- The Risk Management Coordinators will be the key contact of the Risk Officer at each department.

A.1.5 Risk Officer/ Manager

The role of the Risk Officer is to develop, communicate, coordinate and monitor the enterprise-wide risk management activities within the Municipality.

Although management may either appoint a Risk Manager or delegate the function to a current employee to assist in the execution of the risk management process, the accountability to the Council and Municipal Manager remains with management and effective risk management is the responsibility of every employee. The risk management

process does not, however, reside in any one individual or function but requires an inclusive team-based approach for effective application across the Municipality.

The following are the responsibilities of the Risk Manager:

- Assists the Audit / Risk Committee to fulfill its responsibilities in terms of its charter;
- Communicates with the Audit / Risk Committee regarding the status of enterprise wide risk management;
- Takes overall responsibility for the common risk framework and coordinates the risk management activities across the Municipality;
- Proposes on a methodology and framework for ERM for approval by the Council and Municipal Manager;
- Undertakes a gap analysis of the Municipality's ERM process;
- Performs reviews of the risk management process to improve the existing process;
- Facilitates quarterly risk management assessments and risk assessments for all major changes and incidents, such as accidents, purchases of capital equipment, restructuring of operational processes etc;
- Develops systems to facilitate risk monitoring and risk improvement;
- Ensures that all risk categories are included in the assessment;
- Ensures that key risk indicators are included in the risk register;
- Aligns the risk identification process with the Municipality's strategic objectives and integrated development plan;
- Agrees on a system of risk quantification;
- Compiles a consolidated risk register on a quarterly basis;
- Formally reviews the occupational health, safety and environmental policies and practices;
- Creates mechanisms for identifying nodes of change;
- Consolidates all information pertaining to all risk related functions, processes and activities;

- Provides input into the development and implementation of business continuity management plans;
- Transfers the knowledge in respect of an effective and sustainable process of risk identification, quantification and monitoring to management;
- Records the decisions regarding mitigation for every risk facing the Municipality in the risk register;
- Liaises closely with the Internal Audit Function to devise a risk auditing programme, based on the information reflected in the risk registers;
- Benchmarks the performance of the risk management process to the risk management processes adopted by other Municipality's both locally and abroad;
- Implements a formalised risk information system;
- Ensures that risk management training is conducted at appropriate levels within the Municipality to inculcate a risk management culture;
- Communicates the risk strategy to all management levels and to employees; and
- Ensures that the necessary risk management documentation is developed in respect of the risk management process.

A.2 Reporting requirements

A.2.1 Internal reporting processes for risk information

A tiered structure of risk reporting should be followed and should include amongst others:

- Each directorate / department is required to submit the Top 10 strategic risk register to the Risk Management Committee on a quarterly basis;
- The Risk Management Committee is required to submit the top strategic risks (all extreme and high inherent risk exposures) and the top 5 risks per directorate / department to the Audit Committee on a quarterly basis. These strategic risks should include residual risk status and actions to be taken to further mitigate the risk consequences; and
- The Risk Manager will assist in the execution of the risk reporting process.

A.2.2 The frequency of risk monitoring

The risk registers should indicate how often a key risk should be monitored and reviewed. In the realm of financial risk the exposures may be monitored on a continual basis. Other risks such as regulatory change may only need formal review once a year. For the majority of business risks it is prudent to choose monitoring periods that span between 1 – 3 months.

Risks with an unknown pattern and risks that are new to the Municipality, should receive more frequent attention. The results of monitoring processes will be documented in a defined format.

A.2.3 Normal management reporting processes

Normal management processes such as monthly management accounts, Safety Health Environment and Quality (SHEQ), and other similar reporting that discuss risk and control issues should still be reported on in the current prescribed manner.

A.2.4 Incident reports will be generated for unacceptable losses

This is an internal management function and will form part of the enterprise risk management framework. The destination of incident reports will be determined by the nature of the loss, but losses that originate from risks contained in the key risk registers should always be elevated to higher levels of management. Variance reports are incorporated into routine management reporting processes. The inclusion of risk-related variances can be incorporated.

A.3 Risk Assessments

Once a year, the Municipality will undertake a **thorough reassessment** 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 organisation are identified. Comprehensive identification using a well structured systematic process is critical, because risks not identified are never further analysed 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.

The first part of carrying out a structured risk assessment is to profile the key building blocks of the Municipality. This will highlight dependencies, critical parts of the business and start to pinpoint vulnerabilities.

A.3.1 Profile the context

The risk assessment processes begin with the profiling of the Municipality context. The outputs of this task must be documented and should include amongst others:

- Business environment;
- Total size of the core / support services;
- Key players;
- Service portfolios;
- Key suppliers; and
- Market's driving forces.

A.3.2 Profile the objectives of the directorates / departments

The profile of the individual directorates / departments objectives should take into consideration:

- Revenue and expenditure targets;
- Consumer objectives and targets;
- Socio economic targets; and
- Other business objectives.

A.3.3 Profile the stakeholders of the Municipality

Stakeholders may include the following:

- Community;
- Councillors;
- Consumers;

- Business;
- Provincial Government;
- Employee organizations;
- Preferred suppliers; and
- Professional bodies.

A.3.4 Profile the Municipality's value creation processes

The manner in which economic value is generated by the Municipality must be identified and interpreted. This contributes to the understanding of potential risk in the Municipality. The drivers of value must be identified. Methods of valuation must be understood. The Municipality's values of risk can be identified, calculated and profiled. These values will relate to all classes of asset and liability within the business. The following aspects should be profiled:

- Asset values;
- Revenue and expenditure streams;
- Service portfolios; and
- Socio economic processes.

A.3.5 Identify and profile the Municipality's key assets and performance drivers

The key assets and performance drivers should be profiled and should include amongst others:

- Critical success factors;
- Consumer satisfaction;
- Core competencies;
- Competitive strengths and weaknesses; and
- Asset performance.

A.3.6 Map the Municipality's strategy

The Municipality's strategy must be specifically verified and interpreted in the context of risk. This is incorporated in the 5 year integrated development plan. The future direction and intent of the Municipality must be understood.

The Municipality may be seeking to differentiate. For example, investments into technology (for example, upgrading of the IT system) may be the strategic direction of the Municipality. Growth tactics must be profiled.

When mapping the strategy, risk appetite must be considered where the desired return from a strategy should be aligned with the Municipality's risk appetite. Different strategies will expose the Municipality to different risks.

A.3.7 Profile the key processes

The key activity chains must be profiled and documented. The service delivery processes must be profiled. The drivers of service delivery processes and the key features of these processes must be identified and interpreted. For example:

- The processes that generate cash must be profiled.
- The drivers of the Municipality's processes and the key features of these processes must be identified and interpreted.
- Incoming actions such as recruitment, purchasing and procurement must be identified.
- Outgoing processes such as public relations, investments and branding should be profiled.

- Inherent and cyclical processes such as budgeting, information systems and staffing matters must be incorporated into the Municipality's risk profile.

The deliverable of steps A.3.1 to A.3.7 will result in a business / dependency profiles of the Municipality and its related activities.

The next part of the risk assessment process is to identify threats and risks to all of the elements of the Municipality's model, profiled above. This can be done using the following processes:

A.3.8 Identify potential sources of risk associated with the Municipality's profile

Having established the Municipality's profile, the risk assessment process must then identify the potential sources of risk associated with each element of it. The Municipality will follow a top-down approach. Risk is apparent in potential sudden and unforeseen events, in variances, volatility and failure.

Risk will be apparent in non-linear change, weakness and non-performance. Risk will also be reflected in dimensions of non-conformance. Sources of risk will be classified into external and internal factors. The risk assessment process must select a time period within which risks will be considered, but projecting 18 months into the future is recommended for most key risks. The process must have a future orientation as well as examining the facts of today's business profile.

A.3.9 Assess the impact of risk across the Municipality

Risks do not normally exist in isolation. They usually have a potential knock-on effect on other functions, processes and risk categories. These cause-and effect relationships must be identified and understood. This principle must become a deliberate and formal part of the risk assessment process. The results of the process must be documented. The aggregated effect of these risk groupings and linkages should be profiled. Many cross-functional effects of risk may not be immediately apparent without deliberate and systematic analysis, so a formal approach is required.

A.3.10 Identify any influencing factors that may contribute to or shape the risk profile

Having identified a key risk exposure (e.g. increasing competition, lack of funding) the risk assessment must identify the factors that influence and shape the risk (e.g. barriers to entry). Every key risk will have influencing factors or variables. Such factors may relate to inherent risk dynamics such as aggregation, accumulation and correlation. Others may relate to timing and cyclical factors.

Other influences will be reflected in volatility, dependencies and criticality. The degree of diversification and spread of value may also shape the risk profile. All influencing factors must be documented as part of the process.

A.3.11 Evaluate recent and imminent internal changes as possible sources of risk

Recent changes in the Municipality may be a source of present risk (e.g. restructuring process). Equally, imminent change may alter the risk profile. The nature of the changes may relate to the launch of programmes or services. Mergers and acquisitions are another potential source of risk.

Major changes in the Municipality's organisational structure can change the dynamics of risk. Retrenchments, cutbacks and layoffs are obvious sources of risk. Significant shifts in strategic direction may increase the values at risk in the Municipality.

A.3.12 Identify external changes and identify associated risks

Risk assessment processes must not only focus on existing dynamics prevailing in the Municipality. Near-future changes must also be included in the process. Time horizons should be determined for this. Anticipated changes that are self-generating will be easily identifiable, such as investments, capital projects or launching of new capital projects. Their associated risks must be assessed as part of the risk framework. Certain changes in the local government sector, but outside of the Municipality's control can also be anticipated such as regulatory change and competitive movements. Associated risks must be assessed.

A.3.13 Identify the potential root causes of risk events

Exposures could indicate the potential for risks materialising. Perils or triggers cause actual events. Such triggers or events must be identified and documented. The purpose of identifying potential root causes is to give direction to risk intervention measures. This process of identifying root causes of events may be left until after the first round of risk assessments has been completed.

A.3.14 Identify the key controls currently implemented for the identified risks

The existing controls implemented for identified risks must be documented. The term "control" should not be construed only as a financial term. It is now the commonly accepted term to describe any mitigating measure for any particular type of risk. Controls may take the form of financial mitigations such as hedges, insurance or securities.

They may be managerial in nature such as compliance procedures, policies and levels of authority. Controls may be strategic in nature such as diversification related. Controls could also be legal such as contracts and indemnities.

A.3.15 Identify the perceived shortcomings in current measures to mitigate the impact of risks

Management must embark upon a formal process to evaluate the appropriateness of current controls. The levels of risk appetite and limits of risk tolerance will provide the framework to gauge these. Executive observation and judgment is often sufficient to identify shortcomings in control measures, and the level of desired control effectiveness can be expressed.

Operational and technical risks lend themselves more to a more rigorous process of evaluating control effectiveness. Management must consider all categories of mitigation in this process.

Results must be recorded in the relevant risk registers.

A.3.16 Calculate the probability of risk events (Pre-control)

This is the probability that the identified risk / threat will occur within a specified period of time (between 1 and 3 years) on the basis that management have no specific / focused controls in place to address the risk / threat. The probability of occurrence must be assessed for every identified risk.

Different methods of calculating probability can be considered dependent upon the nature of the risk, but the attached tables should be considered in the risk assessment protocol. **(Appendix B)**. Please refer to the attached table to guide your risk calculations.

A realistic evaluation of risk probability is essential, because it guides the allocation of resources in the Municipality. When deciding upon a probability factor from the table, the following guidelines should be considered:

- Consider how many similar incidents have occurred in the Municipality; and
- Consider, and research if necessary, how many similar incidents have occurred at other local municipalities; and
- Consider the effectiveness of the existing preventative controls for the risk.

A.3.17 Calculate the potential impact of the identified risk scenarios (Pre-control)

This is the potential magnitude of the impact on the Municipality's operations should the risk / threat actually occur. This is assessed on the basis that management has no specific / focused controls in place to address the risk / threat (therefore before any controls).

The consequences of risk are not only characterised in financial terms. Management must consider the various scales of impact that are relevant according to the prevalent categories of risk. These may include the scales for reputation damage, personal injuries and fatalities, media coverage, and operational impact.

From a strategic viewpoint, management should determine the scale of potential impact upon defined objectives of the strategy. Scales of financial impact are invariably the most common form of risk quantification and must be reflected using the same scales as financial reporting expectations.

Please refer to the attached table to guide your risk calculations (Appendix B).

A.3.18 Rank the risks in order of priority (Inherent risk)

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.

Inherent risk is the product of the impact of a risk and the probability of that risk occurring before the implementation of any direct controls. The score for inherent risk assists management and internal audit alike to establish relativity between all the risks / threats identified.

The ranking of risks in terms of inherent risk provides management with some perspective of priorities. This should assist in the allocation of capital and resources in the operations. Although the scales of quantification will produce an automated ranking of risks, management may choose to raise the profile of certain risks for other reasons.

This may be justified because of non-financial influences such as media implications, social responsibilities or regulatory pressures. The ranking of risks should be shaped by strategic and business objectives.

A.3.19 Consider perceived control effectiveness

Controls are the management activities / policies / procedures/ processes / functions / departments / physical controls that the Council, Municipal Manager and Management have put in place, and rely upon, to manage the strategic and significant risks. These actions may reduce the likelihood of occurrence of a potential risk, the impact of such a risk, or both. When selecting control activities management needs to consider how control activities are related to one another.

Management then needs to assess the control effectiveness based on their understanding of the control environment currently in place at the Municipality. At this stage of the process, the controls are un-audited, and rated according to management's interpretation of control effectiveness.

Please refer to the attached table to guide your risk calculations. (Appendix B).

A.3.20 Calculate residual risk status

Residual risk reflects the risk remaining after management's intended actions to mitigate an inherent risk have been effectively implemented. Risks are now ranked, taking into consideration the inherent risk rating, and the control effectiveness rating. The ranking of risks in terms of net potential effect provides management with some perspective of priorities, and should assist in the allocation of capital and resources in the Municipality.

Please refer to the attached table to guide your risk calculations. **(Appendix B).**

A.4 Control requirements

Every risk will have a number of controls, mitigations or interventions that have been designed to contain the potential impact or likelihood of the risk. These controls need to be identified and evaluated. They will form the basis of an assurance plan to the Council and Municipal Manager, and may be tested by the internal audit process or other independent means of evaluation.

The following aspects of the control environment should be considered:

A.4.1 Verify and evaluate the controls currently in place for key risks

It is vital that all of the existing controls for identified risks are in turn identified and evaluated. Such controls may take the form of policies, procedures, management activities and instructions. The controls must be evaluated in two essential ways.

Firstly, an evaluation of the appropriateness and adequacy of the existing controls for the risk must be undertaken.

Secondly, the performance of the existing controls must be evaluated.

Desired levels of control effectiveness must be determined. The gap between existing control effectiveness and desired effectiveness must result in an action plan.

A.4.2 Evaluate the strategic mitigations in place for key risks

A specific review of the Municipality's strategic position in the context of risk must be carried out. The Municipality's ability to liquidate its positions must be assessed. The degree of strategic flexibility in response to a risk event must be considered.

The robustness of the strategy in the context of the risk assessment findings must be evaluated. Likely strategic responses to risk and their performance are aspects that must be fully understood. This process may require separate processes of scenario planning around strategic intent.

A.4.3 Identify and evaluate the post-event measures in place for response to risk

The ability of the Municipality to respond to a risk event must be evaluated in detail, and the results recorded as a control in the risk register. Post-event measures include crisis management capabilities, emergency planning, business continuity plans and contingency planning. These responses should incorporate planned measures that cover the basic types of managerial response, such as finance, people, technology and customers.

The criteria for performance will include speed of response, comprehensiveness of response and degree of readiness.

A.4.4 Review the financial risk protection measures in place to respond to the consequences of risk events

The Municipality's risk finance measures include an insurance portfolio, self-insurance policies and funds, financial provisions, and operating budgets for the funding of losses or variances. Management must compare the results of risk assessment processes with the current risk finance arrangements.

This will highlight the net financial effect of risk events upon the Municipality. It will also influence the decisions relating to the structure of risk finance. Certain risks may be deemed intolerable and may require a self-insurance facility or provision to manage the risk. Low risks may lead to greater risk retention limits.

A.4.5 Verify the levels of compliance with regulatory requirements

Adherence to legislation and regulatory frameworks is not negotiable. It is essential that risk-related requirements are incorporated into control frameworks. Relevant requirements must be verified. It is the responsibility of management to build compliance processes around these requirements. Any material breaches must be reported as deemed appropriate through the structures of reporting developed for this.

Having ascertained the suitability, appropriateness and effectiveness of risk controls, management will decide upon further action plans for actual and possible risks:

A.4.6 Take decisions on the acceptability of identified risks and controls

A distinct and conscious process of decision-making for each key risk must be made taking into consideration the risk tolerance levels for the entity. The decisions made for every key risk must be recorded. Decision options include the possibility to tolerate / accept, treat / reduce, transfer / share or terminate / avoid risks. The potential impact upon strategic and operational objectives will influence the outcomes of decision-making processes.

When taking a decision care should be taken when taking any action that could:

- Result in serious injury or fatality;
- Result in significant harm to the environment;
- Impact on the reputation of the Municipality;
- Impact on the performance of the Municipality;
- Result in a fine by regulatory authorities; or
- Undermine the independent and objective review of activities.

Possible prohibited risk areas include the following:

- Changes that could result in regulatory breach;
- Fraud and corruption;
- Theft of the Municipality property; and
- Access to the property by unauthorised personnel.

Any of the above would constitute an unacceptable risk.

A.4.7 Document your action plans for risk mitigation

The action plans for improving or changing risk mitigation measures must be documented in the risk registers. It is important that a process of tracking progress made with risk interventions is followed. Such a process provides a trail of information that may prove to be necessary at some future stage. Good governance practices would expect this. Because risk is often a process of perception, misunderstandings can arise where no record is kept.

The action plans must be unambiguous and provide target dates and names of responsible persons. A process of follow-through must be used.

A.4.8 Use the outputs of risk assessments for budgeting and capital allocation processes

It is important that risk information is factored into budgeting decisions. The variability of budgeted targets must be considered, and one must assume that the risks associated with key Municipality objectives in the budgets have been evaluated as part of risk assessment processes. Considerations around budgeting should also be put in the context of cost-of-risk evaluations.

A.5 Governance requirements

A.5.1 Establish an organisational framework of assurance for key risks and controls

A framework of assurance must be developed for your risks. Key players in the Municipality will combine to provide assurance to the Council and Municipal Manager that risks are being appropriately managed. This combined approach to assurance normally involves external auditors, internal auditors and management working together through the audit / risk committee. Other experts should be chosen to provide assurance regarding specialised categories of risk, such as environmental management. The assurance framework must be formalised and should incorporate appropriate reporting processes.

A.5.2 Internal audit provides assurance that management processes are adequate to identify and monitor significant risks

The internal audit function's evaluation must examine the techniques used to identify risk. The categories and the scope of risk assessments should be considered. The methodologies used to extract risk information must be reviewed. A consensus view of the Municipality's risk profile should be apparent. Monitoring processes should be wholly aligned with the results of risk assessments.

The internal audit function should particularly seek evidence that the processes of risk identification are dynamic and continuous, rather than attempts to comply with governance expectations.

A.5.3 The outputs of risk assessments are used to direct internal audit plans

Internal audit plans depend greatly on the outputs of risk assessments. Risks identified from risk assessments must be incorporated into internal audit plans according to management and audit committee priorities. The risk assessment process is useful for internal audit staff because it provides the necessary priorities regarding risk as opposed to using standardised audit sheets.

The audit activities will focus on adherence to controls for the key risks that have been identified. In addition, internal audit staff may direct management towards the need for better controls around key risks.

A.5.4 Internal audit provides an evaluation of risk management processes

The internal auditors must verify that risk reports are credible and offer a balanced assessment of risks. It is vital that an enterprise-wide view of risk management is adopted by the Municipality, and the Internal Audit Function will examine this. The reliability of risk information, particularly the information regarding controls, should be scrutinised by the Internal Audit Function. The Internal Audit Function should work with specialist providers of assurance where necessary.

A.5.5 Internal audit provides objective confirmation that the Council and Municipal Manager receives the right quality of assurance and reliable information from management regarding risk

The Internal Audit Function plays a key role in coordinating the key players in the risk management process to provide assurance to the Council and Municipal Manager. The Internal Auditor is not normally the only provider of assurance.

The function does, however, have an important role in evaluating the effectiveness of control systems. The process of assurance must of necessity involve the Council, the Audit Committee, Municipal Manager, Management, External Auditors, Regulators and the Internal Audit Function.

A.5.6 Safety, Health, Environment and Quality management

A formal safety management programme is essential for our business. The risks will vary according to each operational site, but the principles of risk management will always apply, i.e. risk identification, risk assessment, formal action plans for mitigation, monitoring, reporting and assurance.

The scope of your safety management programme should include administrative aspects, safety awareness and training, health, hygiene, electrical safety, physical safety, micro-environmental exposures and legislative requirements.

A.6 Common Language

Given that the enterprise risk management process will strive to integrate various participants and specialists from disparate risk professionals, it is vital that the process does not confuse all concerned by using disjointed terminology.

Frequently used risk management terminology should be defined in such a way that it ensures different disciplines have a common interpretation of the terminology in question. (The secret is to keep it simple).

See **Appendix C** for terminology.

Rating Tables

Qualitative assessment of potential impact

The following table is to be used to assist management in quantifying the potential impact that a risk exposure may have on the Municipality.

Severity Ranking	Continuity of Supply	Safety & Environmental	Technical Complexity	Financial	Factor
Catastrophic	Risk event will result in widespread and lengthy reduction in continuity of supply to consumers of greater than 48 hours	Major environmental damage Serious injury (permanent disability) or death of personnel or members of the public Major negative media coverage	Use of unproven technology for critical system / project components High level of technical interdependencies between system / project components	Significant cost overruns of >20% over budget Affect on revenue / asset base of >10%.	100
Critical	Reduction in supply or disruption for a period ranging between 24 & 48 hours over a significant area	Significant injury of personnel or public Significant environmental damage Significant negative media coverage	Use of new technology not previously utilised by the Municipality for critical systems / project components	Major cost overruns of between 10 % & 20 % over budget Affect on revenue / asset base of between 5% & 10%	70
Serious	Reduction in supply or disruption for a period between 8 & 47 hours over a regional area	Lower level environmental, safety or health impacts Negative media coverage	Use of unproven or emerging technology for critical systems / project components	Moderate impact on revenue and assets base	50
Significant	Brief local inconvenience (work around possible) Loss of an asset with minor impact on operations	Little environmental, safety or health impacts Limited negative media coverage	Use of unproven or emerging technology for systems / project components	Minor impact on revenue and assets base	30
Minor	No impact on business or core systems	No environmental, safety or health impacts and / or negative media coverage	Use of unproven or emerging technology for non-critical systems / project components	Insignificant financial loss	10

Qualitative assessment of probability of occurrence (Likelihood)

The table below is to be used to assist management in quantifying the probability of a specific risk occurring in the Municipality.

Probability Category	Category Description	Factor
Almost certain	The risk is almost certain to occur in the current circumstances	0.90
Likely	More than an even chance of occurring	0.65
Possible	Could occur quite often	0.40
Unlikely	Small likelihood but could happen	0.20
Rare	Not expected to happen – Event would be a surprise	0.10

Inherent risk exposure

Category	Category Description	Factor
Extreme	This risk should be terminated / insured / controlled	50 +
High	This risk should be insured / controlled	35 - 50
Moderate	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
Insignificant	Impact and probability is insignificant. This risk may be tolerated, and cost of losses will be absorbed by the operating unit	1 - 15

Qualitative assessment of perceived control effectiveness

The table below is to be used to assist management in quantifying the perceived effectiveness of controls to mitigate or reduce the impact of specific risks on the Municipality.

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 exposure

Category	Level	Category Description	Rating	Factor
Extreme	Immediate action required	Management should take immediate action to reduce residual risk exposure to an acceptable level	Priority 1	+25
Very High	Action required	Management should implement more controls or increase the effectiveness of current controls to reduce the residual risk to a more acceptable level	Priority 2	17.5 - 25
High	Monitor	Management should constantly monitor the risk exposure and related control effectiveness	Priority 3	12.5 – 17.5
Moderate	Acceptable	The residual risk exposure is acceptable to the Municipality	Priority 4	7.5 – 12.5
Low	Reduce control	Management may consider reducing the cost of control	Priority 5	1 – 7.5

C Frequently used terminology

Terminology	Definition of terminology
Risk	Risks are uncertain future events (threats and opportunities) that could influence the achievement of the goals and objectives of the Municipality.
Risk Management	Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues and opportunities.
Risk Assessment	The overall process of identifying, analysing 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.
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.
Residual Risk	Risk after considering the effectiveness of management's risk responses.
Risk Mitigation	The process of selecting and implementing measures to modify risk (encompasses risk avoidance, risk reduction, risk retention and risk transfer).
Risk Categories	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 organisation.
Risk Profile	Identification and listing of risks, typically in order of highest to lowest based on a qualitative or quantitative measurement approved by client

Terminology	Definition of terminology
	management.
Risk Strategy	The approach adopted for associating and managing risks based on the Municipality's objectives and strategies.
Risk Appetite	The amount of risk taken in pursuit of value.
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 entity or its industry.
Process	Structured set of activities within an entity, designed to produce a specified output.
Impact	This is the magnitude of the impact on the Municipality should the risk actually materialise.
Probability	This is the likelihood that the risk will materialise.
Inherent risk	This is the product of the probability of occurrence and the severity of outcome, prior to control measures.
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.
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.

D Risk Categories

Risk categories include amongst others:

- Services
- Marketing
- Competition
- Political
- Social
- Economy
- Financial stability
- Regulatory / Statutory / Legal
- Fraud and Theft
- Human Resources
- Operational
- Technical and technological
- Information Technology
- Business Continuity Planning
- Change Management / Organisational
- Information Integrity and reliability
- Physical Risk
- External Environment
- Health / AIDS
- Safety

REVIEWED BY DATE

27 June 2014

Adopted by council by Council at its meeting held on the 28 August 2014

A182/2014

Signed at Mosimolle on 29/ August /14

 29/08/14
MUNICIPAL MANAGER DATE