

**dr.jsmlm**

Dr J.S Moroka Local Municipality

**APPROVED RISK MANAGEMENT STRATEGY**

**2015/16**

**REF: 3/4/7/2**

**INDEX PAGE**

1. INTRODUCTION AND BACKGROUND 3
2. LEGAL MANDATE, GUIDING FRAMEWORKS AND BEST PRACTICES 3
3. PURPOSE 3
4. ALIGNMENT WITH MPUMALANGA PROVINCIAL RISK MANAGEMENT

METHODOLOGY 3

1. PRINCIPLES OF RISK MANAGEMENT STRATEGY 4
2. EXPECTATIONS OVER RISK MANAGAMENT AND THE RISK

IDENTIFICATION AND ASSESSMENT 4-5

1. FIRST PHASE OF RISK IDENTIFICATION AND ASSESSMENT 5
2. SECOND AND LAST PHASE OF RISK IDENTIFIFICATION AND ASSESSMENT 5-6
3. THE EIGHT COMPONENTS OF RISK MANAGEMENT 7-8
4. THE IMPORTANCE OF RISK MANAGE MENT IMPLEMENTATION PLAN 8
5. THE REPORTING LINE OF ROLE PLAYERS IN RISK MANAGEMENT 8-9
6. CONCLUSION 9
7. ANNEXURES A,B AND C 10-13

**1. Introduction and background**

Risk Management Policy remains a primary document for effective and efficient

Risk Management in the Municipality; however the Risk Management strategy outlines the practical implementation of the policy.

**2. Legal mandate, guiding frameworks and best practices**

- Section 195 of the Constitution of the Republic of South Africa Act 108 of 1996

- Sections 62 (1) (c) (i) and 95 (c) (i) of the MFMA

- Section 55 of the MSA

- Public Sector Risk Management Framework

- Mpumalanga Provincial Risk Management Methodology

- Batho Pele Principles as per the White Paper of 1997 on the Transformation of

Service Delivery

* Committee on Sponsoring Organisation of the Treadway Commission Framework

**3. The purpose of the strategy**

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

**4. Alignment with Mpumalanga Provincial Risk Management Methodology**

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

**5. Principles of Risk Management Strategy**

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

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

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

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

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

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

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

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

6.3 Risk assessment sessions should be comprised of Management if it is strategic risk assessments and staff members at the unit level if it is operational risk assessments.

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

**7. First phase of risk identification and assessment**

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

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

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

**8. Second and last phase of risk identification and assessment**

8.1 The risk identification and assessment pack should outline the rating table of

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

8.2 A formula should be developed on the calculation of residual risks, which is a risk

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

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

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

**9. The eight components of risk management**

**Objective setting**

Organisational Context

Risk Management Context

**Risk Identification**

What can happen?

What could be the cause?

How can it happen?

**Risk Assessment**

Interrogate the controls in place

Measuring impact & likelihood

Establish the level of risk

Assess risks

**Risk Management Strategy**

Identify treatment options (strategy)

Evaluate treatment options

Implement recommendations

**Monitoring and Evaluation**

**CONTROL**

**ENVIRONMENT**

**Information and Communication**

**Control Activities**

(Policies and procedures)

The eight components of risk management on page 6 serve to depict the risk management approach or cycle, as mentioned in page 7 to page 10 of the risk management policy, which is precisely sub-heading 9 from paragraph 9.1 to paragraph 9.11 thereof. The key aspect with regard to risk assessment process is to make sure that financial resources are made available where applicable to carry out the future actions or mitigating strategies. The failure to provide financial resources will mean that the mitigating strategies or future actions in question will be non-implementable and consequently the risk will not be addressed. Fundamental platform to address the risks will be when risk champion and the risk owner implement the mitigating strategies in order to address the risk.

**10. The importance of risk management implementation plan**

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

**11. Reporting lines of role players in Risk Management**

11.1 The accounting officer is accountable to the council about the effective

implementation of risk management systems in the municipality, and that the former has to provide administrative leadership and guidance on risk management matters.

11.2 A Risk Management Committee is a structure discharged with responsibilities over Risk Management matters and it is accountable to the accounting officer. The aforesaid Committee must interact with the Audit Committee to share information relating to the Municipality’s significant risks.

11.3 The Audit Committee is an independent body that provides regular feedback to the accounting officer on adequacy and effectiveness of Risk Management in the Municipality. This Committee should advise on issues of Risk Management before they are tabled in the Council.

11.4 Internal audit is there to provide independent assurance on the effectiveness of Risk Management in the Municipality by testing the internal controls and to administratively report the accounting officer while functionally report to the Audit Committee.

11.5 The Chief Risk Officer is administratively accountable to the accounting officer on issues of risk management and functionally reports to the Risk Management Committee on issues of Risk Management.

11.6 Management is the ultimate risk owner and that managers are responsible for risks within their area of operation or Departments. They are accountable to the accounting officer on issues of risk management within the Municipality.

11.7 Risk champion or risk coordinator is there to coordinate, consolidate, and resolve problems that are faced by the risk owners at the Departmental level and to assist the Risk Management Division where there are shortcomings in terms of achieving a sound and effective Risk Management system.

11.8 All other officials report to their respective immediate supervisors on issues of Risk Management and they must integrate Risk Management activities in their day-to-day operations. The aforesaid assertion will be done through the application of internal controls such as policies, procedure manuals, strategy documents, plans and applicable piece of legislations, rules and regulations and many others.

11.9 Apart from having the Auditor General South Africa as one of the assurance providers which advises the Municipality through the accounting officer as per the functions outlined in chapter 9 of section 188 of the Constitution of the Republic of South Africa Act 108 of 1996, it should be noted that its work is not confined to enablers of Risk Management of the Municipality. Their work will depend on the focus of their audit for a particular financial year.

**12. Conclusion**

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

**Annexure A of Risk Management Strategy**

|  |  |  |
| --- | --- | --- |
|  | | |
|  | Tables of risk ratings on both impact and likelihood |  |
|  | **Table consisting of risk rating: impact** |  |
| **Level** | **Description/Consequence** | **Score** |
| Critical | Negative outcomes or missed opportunities that are of critical importance to the achievement of objectives. | 5 |
| Major | Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet the objectives. | 4 |
| Moderate | Negative outcomes or missed opportunities that are likely to have a relative moderate impact on the ability to meet objectives. | 3 |
| Minor | Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives. | 2 |
| Insignificant | Negative outcomes or missed opportunities that are likely to have a relatively negligible impact on the ability to meet objectives. | 1 |
|  | **Table consisting of risk rating: likelihood** |  |
| **Level** | **Description/Consequence** | **Score** |
| Common | The risk is already occurring, or is likely to occur more than once within the next 12 months. | 5 |
| Likely | The risk could easily occur, and is likely to occur at least once within the next 12 months. | 4 |
| Moderate | There is above average chance that the risk will occur at least once in the next 3 years. | 3 |
| Unlikely | The risk occurs infrequently and is likely to occur within the next 3 years | 2 |
| Rare | The risk is conceivable, but only likely to occur in extreme circumstances | 1 |

**Annexure B of Risk Management Strategy**

1. Table of calculating total inherent risk

Impact X likelihood = Total inherent risk (5X4=20)

Hereunder is a table showing the calculation of total inherent risk:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **IMPACT** | 5 | 5 | 10 | 15 | 20 | 25 |
| 4 | 4 | 8 | 12 | 16 | 20 |
| 3 | 3 | 6 | 9 | 12 | 15 |
| 2 | 2 | 4 | 6 | 8 | 10 |
| 1 | 1 | 2 | 3 | 4 | 5 |
|  |  | 1 | 2 | 3 | 4 | 5 |
| **LIKELIHOOD** | | | | | |  |

The calculation from above shows the calculation of risks in their inherent nature, but the below example shows the calculation of risks in the residual form, that is:

Residual Impact X Residual Likelihood = Total Residual Risk (This formula is used to evaluate the control effectiveness)

RI X RL = TRR

5 X 3 =15

**Annexure C of Risk Management Strategy**

Category of risks

|  |  |  |
| --- | --- | --- |
| **Risk type** | **Risk category** | **Description** |
| Internal risks | Human resources | These risks relates to human resources of an organisation such as but not limited to: employee relations, wellness, occupational health and safety, recruitment and retention. |
| Knowledge and information management | These are risks that relate to institution of organisation’s knowledge and information such as but not limited to: credibility of information, availability of information, relevance of information and safeguarding of information. |
| Litigation | These are risks that may occur as result of litigations and lawsuits against the organisation or institution such as risks that are brought by suppliers, service providers, public, employees and many others. |
| Loss/theft of assets | These are the risks that may occur as a result of loss or theft of the asset. |
| Material resources (procurement risk) | These are risks that relate to the cost of procuring resources, wastage of material resources and etcetera. |
| Service delivery | These risks may occur if the expected quality of services is not provided to the citizens. |
| Information technology | These are risks that relate to organisation’s IT objectives and infrastructure equipment. The following are the areas to be looked into when dealing IT risks: governance, user access controls, programme change management, integration of the systems, security concerns and etcetera. |
| Third party performance | Risks that relate institution’s reliance on the performance of a third party such as non-performance of a third party to perform in line of service level agreement. |
| Health and safety | Risks that relate to occupational health and safety issues such as injury on duty and outbreak of disease within the institution. |
| Disaster recovery/business continuity | Risks that relate to disasters that could or may impact on the normal functioning of the institution e.g. natural disasters, illegal act by individuals which would lead to possible disruption of processes and service delivery. |
| Compliance / regulatory | These are risks that relate to compliance matters or requirements that an institution has to meet such as monitoring and enforcement mechanisms, consequences of non-compliance which may result to payment of fines and penalties and many others. |
| Fraud and corruption | These risks relate to illegal and improper acts by either employees including the third parties resulting to loss of institution’s assets and resources. |
| Financial | Risks that relate to general financial management which include among others: revenue collection, wasteful expenditure, financial losses, budget allocations, increasing operational expenditure and many others. |
| Cultural | These are the risks that talks to the institution’s overall culture and control environment such as among others: communication channels, management style, goals alignment, entrenchment of ethics and values and many others. |
| Reputation | It talks about the risks that may tarnish the image of the organisation’s reputation, public perception and image. |
| External risks | Economic environment | Risks that relate to the institution’s economic environment such as inflation, interest rates and foreign exchange fluctuations. |
| Social environment | These are risks that emanate from political factors such as political unrest, changes in office bearers and many others. |