

RISK MANAGEMENT STRATEGY 2023-2024



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FINAL

1. PURPOSE

The purpose of this strategy document is to provide a risk management framework and guidelines to be followed within the KSDLM in identifying, assessing, managing, monitoring, and reporting risks facing the municipality in pursuit of objectives as identified in the Integrated Development Plan (IDP) of the municipality. The aim of the municipality's risk management is to create value for the stakeholders of King Sabata Dalindyebo community in a sustainable manner.

2. LEGISLATIVE MANDATE

In terms of Municipal Finance Management Act (MFMA); sections 62(1) (c) (i):

"The Accounting Officer has to have and maintain 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 78 and 79 of the MFMA, is to all officials as a cornerstone in the institutionalization of risk management in the public service. It establishes responsibility for risk management at all levels of management, extending beyond the roles of the Accounting Officer, the Internal Audit Units, or the Audit and Performance Audit Committee in this regard.

The King IV Report on Corporate Governance also reflects on risk management as an integral part of strategic and operational activities. King IV 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 more than an exercise of risk avoidance. It is as much about identifying and utilizing opportunities as avoiding or mitigating possible losses.

3. OBJECTIVES

The objectives of this Risk Management Strategy are to:

- i) To provide reasonable assurance that significant risks are identified and effectively managed;
- ii) Improve municipality's performance by assisting and improving decision making and planning;
- iii) Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefits the municipality is encouraged;

- iv) Provide a sound basis for integrated risk management and internal control as components of good corporate governance;
- v) Effectively manage specific risks within the municipal capacity such as security, fraud, and corruption;
- vi) Ensure that the Municipality complies with legislation, policies, and regulatory requirements.
- vii) Embed risk management into the culture and language of the KSDLM.
- viii) Delineate boundaries regarding risk management within the King Sabata Dalindyebo Municipality.

4. DEFINITONS

a) **Accounting Officer** -

1) In a Municipality: The Municipal Manager; is head of administration appointed in terms of Municipal Systems act 32 Of 2000 as amended.

b) **Audit and Performance Audit Committee** - An independent committee constituted to review the control, governance and risk management within the Institution, or section 166 of the MFMA.

c) **Chief Audit Executive i.e., GM Internal Audit** - the head of internal audit in the organisation (where internal audit activities are sourced from external service providers, the Chief Audit Executive is the person responsible for overseeing the service contract and the overall quality of the services provided).

d) **Chief Risk Officer** - A senior official who is the head of the risk management unit.

e) **Executive Authority** -

1) ***In a Municipality:*** The Municipal Council, as the governing body as defined in the municipal structures act no of 117 of 1998 as amended.

f) **Framework** - The Public Sector Risk Management Framework

g) **Internal Auditing** - An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

h) **King IV** - The King Code of Corporate Governance for South Africa 1994.

i) **Management** - All officials of the municipality that are directly accountable to Municipal Manager and their immediate subordinates sitting in KSDM management meetings.

j) **MFMA** - Municipal Finance Management Act (Act No. 56 of 2003).

k) **Risk** – An unwanted outcome, actual or potential, to the Institution's service delivery and other performance objectives, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which Management must be aware of and be prepared to exploit. This definition of "risk" also encompasses such opportunities.

- l) 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.”*
- m) **Risk Management** – Systematic and formalised processes to identify, assess, manage, and monitor risks.
- n) **Enterprise Risk Management**- is a continuous, proactive, and systematic process effected by the KSDLM Council, Management, and other personnel, applied in strategy setting and across the operations of the enterprise, designed to identify potential events that may affect the KSDLM, and manage risk to be within its risk appetite to provide reasonable assurance regarding the achievement of KSDLM objectives.” It 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, and or Choices made under conditions of uncertainty, bound by acceptable levels of risks, designed to sustain/ maximise stakeholder value.
- o) **Control Activities**- policies and procedures established and implemented to help ensure the risk activities are effectively carried out.
- p) **Inherent Risk** - The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.
- q) **Risk Factor** - Any threat or event which creates or has the potential to create risk.
- r) **Residual Risk**- is the risk after considering the effectiveness of management's risk responses (controls). **OR** the remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the remaining risk after Management has put in place measures to control the inherent risk).
- s) **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. This is usually done once a year aligned to IDP objectives and annual targets on SDBIP and or on processes followed by operational employees.
- t) **Risk Categories**- is the 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 derives risk within the organisation.
- u) **Risk Appetite**- the amount of risk taken in pursuit of value. The amount of risk the Institution is capable of bearing (as opposed to the amount of risk it is willing to bear)
- v) **Risk Strategy**- the approach adopted for associating and managing risk based on the municipality's objectives and strategies.
- w) **Risk Management Committee** - A committee appointed by the Accounting Officer to review the Institution's system of risk management.

- x) **Risk Management Unit** - A business unit responsible for coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibilities of Management for identifying, assessing, and managing risk.
- y) **Risk Owner** - The person accountable for managing a particular risk.
- z) **Risk Champion** - A person who by virtue of his/her expertise or authority champions an aspect of the risk management process who may not necessarily be the risk owner.

5. ACRONYMS

AO	Accounting Officer (Municipal Manager)
AC	Audit and Performance Audit Committee
RMC	Risk Management Committee
KSDLM	King Sabata Dalindyebo Local Municipality

6. SCOPE

This strategy document applies to all personnel, and community and stakeholders within the KSDLM.

7. BENEFITS OF RISK MANAGEMENT

The benefits of risk management to KSDLM encompass:

- i. **Aligning risk appetite and strategy** - Management considers their risk appetite in evaluating strategic alternatives, setting, related objectives and developing mechanisms to manage related risks.
- ii. **Enhancing risk response decisions** - Municipality's Risk Management provides the rigour for management to identify alternative risk responses- risk avoidance, reduction, sharing and acceptance.
- iii. **Reducing operational surprises and losses** – KSDLM faces a myriad of risks affecting different parts of the municipality and Municipality Risk Management facilitates effective responses to the interrelated impacts and enhances an integrated response to multiple risks.
- iv. **Seizing opportunities** – By considering a full range of potential events, Management is positioned to identify and proactively realize opportunities.
- v. **Improving deployment of capital** – Obtaining robust risk information allows Management to effectively assess overall funding requirements and enhance allocation.
- vi. **Ensuring compliance with laws and regulations** - Municipality Risk Management contributes to effective reporting and monitoring of compliance with laws and regulations and assists with the limitation of damage to KSDLM's reputation and associated consequences.
- vii. **Increasing probability of achieving objectives** – Municipality's Risk Management helps municipality achieve performance and financial targets and assist with the prevention of loss on resources. Control and risk interventions will be chosen on the basis that they increase the likelihood that KSDLM will fulfil its intentions/ commitments to its stakeholders.

viii. Every employee of KSDLM has a part to play in Municipality Risk Management.

8. FOCUS POINTS OF RISK IDENTIFICATION

1) **To ensure comprehensiveness of risk identification the municipality will identify risk factors through considering both internal and external factors, through appropriate processes of:**

a) **Strategic risk identification** - to identify risks emanating from the strategic choices made by the municipality, specifically regarding whether such choices weaken or strengthen the municipal ability to execute its Constitutional mandate:

- i) Strategic risk identification will precede the finalisation of strategic choices to ensure that potential risk issues are factored into the decision-making process for selecting the strategic options;
- ii) risks inherent to the selected strategic choices will be documented, assessed, and managed through the normal functioning of the system of risk management; and
- iii) Strategic risks should be formally reviewed concurrently with changes in strategy, or at least once a year to consider new and emerging risks.

b) **Operational risk identification** - to identify risks concerned with the municipality's operations:

- i) Operational risk identification should seek to establish vulnerabilities introduced by employees, internal processes and systems, contractors, regulatory authorities, and external events;
- ii) Operational risk identification should be an embedded continuous process to identify new and emerging risks and consider shifts in known risks through mechanisms such as management and committee meetings, environmental scanning, process reviews and the like; and
- iii) To the extent that is deemed inadequate to expose the full extent of risk introduced by significant environmental or municipal changes, operational risk identification will be repeated when changes occur, or at least once a year, to identify new and emerging risks.

c) **Project risk identification** - to identify risks inherent to projects:

- Project risks should be identified for all major projects, covering the whole lifecycle; and
- For long term projects (multi-year), the project risk register should be reviewed at least once a year to identify new and emerging risks.

9. RISK MANAGEMENT RESPONSIBILITIES AND STRUCTURES

All personnel have a responsibility for maintaining good internal control and managing risk to achieve personal, workgroup and strategic objectives. Collectively, staff at operating units need 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 municipality deals 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.

9.1 Committee Responsibilities

Ref	Activity	Responsibility	Frequency
1.	The Audit and Performance Audit Committee should meet on a quarterly basis, to assess the effectiveness of risk unit and its functions.	Risk Management Committee Chairperson	Quarterly
2.	The Risk Management Committee review risk management progress on a quarterly basis.	Municipal Manager and Independent Chairperson	Quarterly
3.	The Departments Management and Standing Committees should meet on a quarterly basis to reflect on risk management matters	MMCs and or / Directors and General Managers	Quarterly

9.2 Reporting Responsibilities

Ref	Activity	Responsibility	Frequency
1.	The Audit and Performance Audit Committee must include statements regarding risk management performance in the annual report to stakeholders.	Risk Management Committee Chairperson	Annually
2.	The Risk Management Committee must submit a risk management report to the Audit and Performance Audit Committee on a quarterly basis. The report will focus on the following: <ul style="list-style-type: none"> ✓ The top strategic risks facing KSDLM (All unacceptable residual risk exposures) ✓ The strategic risks per department (approximately top 10 identified risks); and ✓ Any risk developments (changes) / incidents/ losses 	Municipal Manager and Independent Chairperson	Quarterly
3.	Each department must develop a risk management report on all identified risk for submission to the Risk Management Committee on a quarterly basis. This will focus on the following: <ul style="list-style-type: none"> ✓ All strategic and operational risks per department and any risk 	Directors / General managers	Quarterly

	developments (changes) / incidents / losses		
4.	The Risk Management Unit is responsible for developing standard risk management reporting templates and collate risk management information for submission at all levels.	Chief Risk Officer	Annually

9.3 Risk Assessment Responsibilities

Ref	Activity	Responsibility	Frequency
1.	The Council must independently review the key risks of KSDLM at least once a year.	Audit and Performance Audit Committee and or / Executive Mayor	Annually
2.	The Risk Management Committee must arrange for KSDLM's key risks to be formally re- evaluated once a year.	Independent Chairperson and or / Municipal Manager	Annually
3.	Each department Standing and Management Committees must formally reassess the top risks annually (in their environment) and report on the top risks.	Head of Department (HOD) and or Senior Managers	Annually
4.	The Risk Management Office is responsible for the facilitation of all risk assessments, and populating the risk registers	Risk Management Unit	As scheduled per Risk Management Plan

9.4 Control Responsibilities

Ref	Activity	Responsibility	Frequency
1.	The Chairperson of the Audit and Performance Audit Committee must consider Internal Audit and management's report concerning the effectiveness of internal controls at least once a year.	Audit and Performance Audit Committee Chairperson	Quarterly
2.	The Risk Management Committee must report to the Audit and Performance Audit Committee regarding the performance of internal controls for those risks in the risk registers.	Municipal Manager / Independent Chairperson	Quarterly
3.	The departments must report to the Risk Management Committee regarding the performance of internal	Head of Department (HOD) and Managers	Quarterly

	controls for those risks in the operational risk registers.		
4.	All risk registers must contain action plans for improving risk controls and risk interventions. Each committee will review progress made with these action plans.	All	As scheduled per Risk Management Plan

9.5 Governance Responsibilities

Ref	Activity	Responsibility	Frequency
1.	Each key risk must have a nominated risk owner, who will be responsible for the following. <ul style="list-style-type: none"> ✓ 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 regarding the risk. 	All	As scheduled per Risk Management Plan
2.	The Internal Audit Unit must 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.	Internal Audit Unit	Annually and as scheduled per Risk Management Plan
3.	The Internal Audit Unit must review the effectiveness of KSDLM's risk management processes while executing their plan and submit their reports to the Audit and Performance Audit Committee for consideration. Internal Audit Unit must also submit an updated summary of their findings for the whole year and submit to the Audit and Performance Audit Committee.	Internal audit Unit	Annually

10. APPENDIX A- RISK MANAGEMENT GUIDELINES

10.0. Accountability and responsibility guidelines

10.1 Roles and responsibilities of the Council and Audit and Performance Audit Committee

- i) The Council, Municipal Manager and Top Management are accountable for risk management.

The Council should be aware of their responsibilities for the management of risk within the municipality as detailed in the Risk Management Policy. These responsibilities are stated as follows:

- a) The Council through Audit and Performance Audit Committee is responsible for oversight of the Risk Management processes, as well as for forming its own opinion on the effectiveness of the process.
- b) Council has to approve the risk management policy, Risk Management Strategy, , and risk implementation plan;
- c) Council should ensure on design, implementation, monitoring, and integration of risk management into day-to-day activities of the municipality;
- d) The Council, should fully appreciate the business risk issues and key performance indicators affecting the ability of the municipality to achieve its strategic purpose and objective; and
- e) The Council 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.

10.2 The KSD Municipality must formally evaluate the effectiveness of risk management process once a year.

Success with risk management should be evaluated from risk committee reports, various (incident and audit) reports, municipal risk culture, unexpected losses, internal control effectiveness and business success. The municipal evaluations must be formally recorded in minutes and reports of Council meetings.

It is recognised that risk management has evolved into a complex management discipline. The Council's evaluations of risk management, therefore, should be supplemented by an independent review to be performed by the Municipality's Audit and Performance Audit through Internal Audit Unit.

Management must ensure that sufficient independence is maintained in conducting the annual reviews. 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.

Criteria for the evaluation have been established (Refer to **Appendix B** for the tables to be considered for the assessment).

The Council through Audit and Performance Audit Committee must confirm that the risk management process is accurately aligned to the strategy and performance objectives of the KSDLM.

The Council through Audit and Performance Audit Committee must ensure that the risk management processes address risk in a balanced way, giving due attention to all types of risk. Evaluate whether appropriate resources are being applied to the management of strategic risks, reputation, stakeholder, financial risk, operational, regulatory, and technical risks.

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

10.3 The Risk Committee will monitor the KSDLM risk management processes.

a) Risk Management Committee

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

- i.** Constitution;
- ii.** Membership;
- iii.** Authority;
- iv.** Terms of reference; and
- v.** Meetings

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

10.4 Roles and responsibilities of Management

Senior Managers are 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 Chief Risk Officer to assist management in discharging its responsibilities.

a) Developing and implementing risk management plans including;

- i.** Actions to optimise risk / reward profile to maximise reward with risk contained within the Council and Municipal Manager's approved risk tolerance;
- ii.** Implementation of cost-effective preventative and contingent control measures; and
- iii.** Implementation of procedures to ensure adherence to legal 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, should enhance control at a reasonable cost; and

Reporting to the Risk Management Committee on the risk process and resultant risk/reward profiles.

10.5 Risk Management Champions

Responsibilities of the Risk Management Champions include amongst others:

- i. The Risk Management Champions should relating to their responsibilities assist the Risk Management Unit with updating of risk reporting information; and
- ii. The Risk Management Champions should be the key contact of the Risk Management Unit at each department; and

10.6 Chief Risk Officer

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

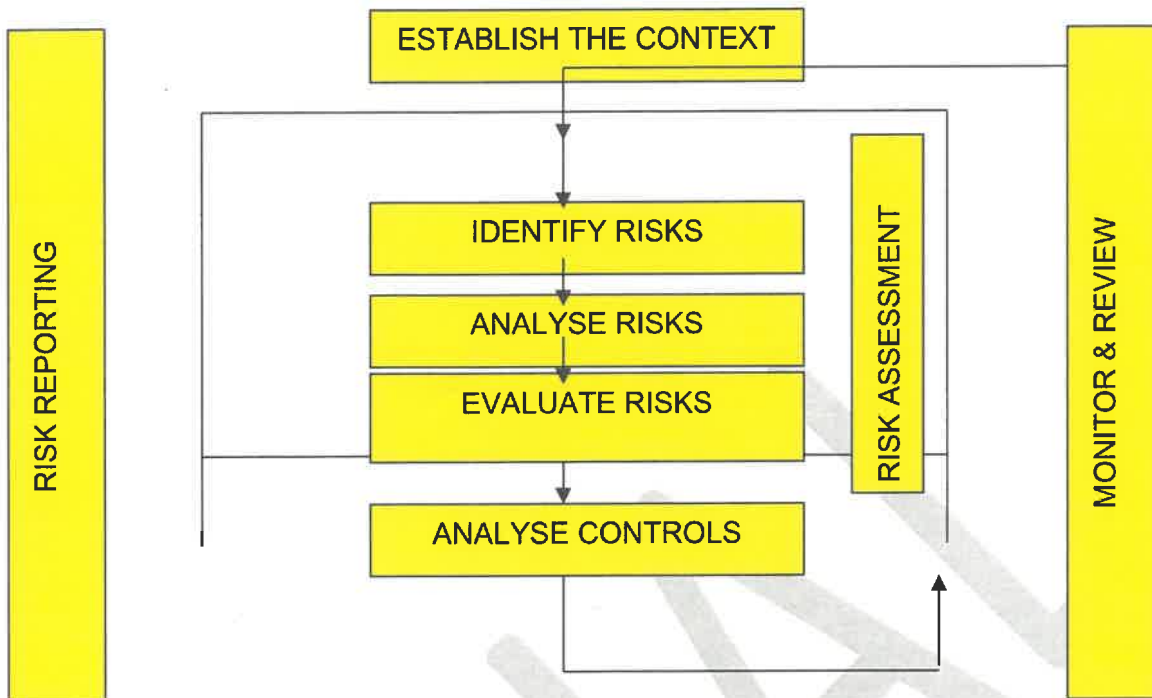
Although management may have a Chief Risk Officer to delegate the functions or assist in the execution of the risk management processes, the accountability to the Council and Municipal Manager remains with Senior Managers even though effective risk management is the responsibility of every employee. 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.

11 RISK ASSESSMENTS

- i. Once a year, the KSD Municipality must undertake a thorough reassessment of its risks at all levels using the following methodology:
 - ii. A risk assessment is the process by which the risk to be managed in municipality are identified. Comprehensive identification using well-structured systematic process is critical because risks not identified are never further analysed and potentially end up not being managed.
 - iii. 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.
- a) At a minimum, a risk assessment should result in:**
- i) Identification of relevant risks towards the achievement of objectives; and
 - ii) The prioritisation of risk, 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 should highlight dependencies, critical parts of the business and start to pinpoint vulnerabilities.

The KSDM Risk Management Process is depicted below:



S

Set out below is a discussion on each element of the process.

11.1. Establish the context.

The risk assessment processes begins with the profiling of the municipality's context. The outputs of this task must be documented and should include amongst others:

- i. Business environment;
- ii. Total size of the core/ support services;
- iii. Key role players;
- iv. Stakeholder's driving forces.

Establishing the context is a pre-requisite to the process of identifying risks in any given situation. Establishing the context is about placing a boundary around the subject matter that is being subjected to the risk management process. Contexts can be entire businesses, functions, departments, processes, projects, activities, specific business decisions that must be taken and the like.

a) In setting the context, consideration must be given to:

- i. the business objectives of the subject matter that is being covered;
- ii. the purpose, scope, and depth of the risk management process to be applied;
- iii. the time horizon to be covered for risk identification purposes;
- iv. establishing the roles and responsibilities of the various people and
- v. parts of the organization participating in the risk management process;
- vi. subdividing the subject matter into a set of elements to provide a logical framework that helps ensure that significant risks are not overlooked; and
- vii. deciding the criteria against which risks should be evaluated.

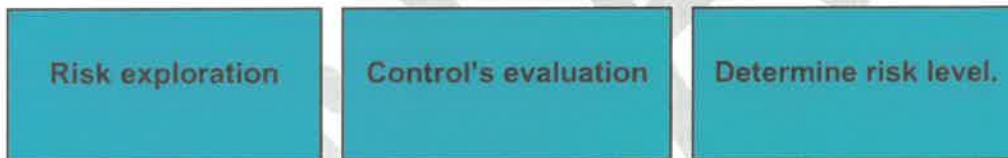
11.2. Identify risks.

The purpose of risk identification is to identify all risks within the context established above. The aim is to generate a comprehensive list of risks that might have an impact on the achievement of each of the objectives identified in the context phase above. These events might prevent, delay, or enhance the achievement of those objectives. In this regard, risks identified should not only be events that could hinder/threaten the achievement of objectives but also events that could have a positive effect on the achievement of objectives.

Comprehensive identification using a well-structured, systematic process and involving the right people is critical, because a risk not identified at this stage may be excluded from further analysis. Risk identification should include all risks irrespective of whether they are under the control of the municipality, for as long as they could affect achievement of KSD municipal operations and objectives. KSD municipal departments should be approached individually during risk assessment consultation and all departmental staff be previewed to the process for ownership purposes. The departmental assessment should be sent to entire management, Mayoral Committee and Municipal Council for review and approval.

11.3. Analyse risks

This phase covers the following elements:



Each of these elements is dealt with below.

a) Risk exploration (understanding the causes and consequences of identified risks)

The purpose of risk exploration is to understand the causes and consequences of the identified risks. In the absence of a precise understanding of the cause of a risk one is unable to design effective **preventative** control measures to manage the cause. Similarly, in the absence of a precise understanding of the nature of the consequences of a risk one is unable to accurately measure the impact that the risk may have nor implement effective **corrective** control measures to manage the impact.

b) Control's evaluation (evaluating existing risk treatment controls)

This involves obtaining an understanding of the existing preventive and corrective controls currently in place to treat the risk together with the operating effectiveness of those controls. This information is vital for accurately assessing the residual risk level which is covered below.

c) Determine risk level (measuring the impact and likelihood levels of identified risks)

Risk assessment involves assessing the magnitude of the consequences of a risk, should it occur, and the likelihood of the event occurring. This consequence and likelihood are combined to produce a risk level. The risk assessment tool set out in

Appendix B should be used to facilitate this process. Based on this tool, any given risk should be assessed at one of [3] three magnitude / levels.

11.4. Two types of risk assessments could be performed, namely qualitative and quantitative.

- i) Qualitative assessments are used where risks do not lend themselves to quantification or when either enough credible data required for a quantitative assessment is not practically available or a quantitative assessment is not cost-effective. Qualitative assessments are typically based on subjective views of individuals.

The following are some of the information sources when performing a qualitative assessment:

- i. Past incidents and experience;
 - ii. Published literature;
 - iii. Consultations with stakeholders; and
 - iv. Expert judgements
- ii) Quantitative techniques involve the use of mathematical models, bring more precision, and are typically used in more complex and sophisticated activities to supplement qualitative techniques.

It should be noted that qualitative assessments suffice for most risks.

Risks are normally assessed at an inherent level and at a residual level. It is accepted, however, that in certain contexts the inherent risk assessment may not add value and that only a residual assessment is performed.

The inherent assessment is an assessment of the level of risk before the evaluation of existing risk treatment controls have been considered.

The residual risk assessment is an assessment of the level of risk after risk treatment controls have been evaluated.

11.5. Evaluate risks.

The purpose of risk evaluation is to make decisions, based on the outcomes of risk analysis, about which risks need treatment as well as risk treatment priorities.

Risks assessed as having High and Medium magnitude / Level 01 and 02 risks must receive the priority, followed by Low magnitude / levels 03. Individual risks or an aggregation of common risks at magnitude / level [1, and 2] should generally be considered as beyond the KSDLM risk tolerance level and therefore risks at these levels must be considered for further treatment.

Each business unit and corporate function needs to set their own tolerance levels based on their unique circumstances. However, these tolerance levels must be aligned with the group tolerance levels.

11.6. Control Analysis

Every risk should have 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 should form the basis of an assurance plan to the

Council and Municipal Manager and may be tested by the Internal Audit Unit process or other insurance providers.

11.6.1 The following aspects of the control environment should be considered:

a) Verify and evaluate the controls currently in place for the key risks

It is important that all the existing controls for identified risks are in turn 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 implementation 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.

Control effectiveness is categorised in three folds (Strong, Good, Satisfactory and Weak) as detailed in appendix B.

b) Evaluate the detailed strategic mitigations in place for key risk

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.

c) 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 result recorded as a control in the register. Post- event measures include crisis management capabilities, emergency planning, and business continuity plans / 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 should include speed response, comprehensiveness of response and degree of readiness.

d) 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 may highlight the net financial effect of risk events upon the municipality. It should 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 risk may lead to greater risk retention limits.

e) 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.

f) Take decisions on the acceptability of identified risk and controls.

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

- i. When taking a decision care should be taken when taking any action that could:**
 - a) Results in serious injury or fatality;**
 - b) Result in significant harm to the environment;**
 - c) Impact on the reputation of the municipality;**
 - d) Impact on the performance of the municipality;**
 - e) Result in a fine by regulatory authorities; and or**
 - f) Undermine the independent and objective review of activities.**

- ii. Possible prohibited risk areas include but not limited to the following:**
 - a) Changes that could result in regulatory breach;**
 - b) Fraud and corruption;**
 - c) Theft of the municipal property; and**
 - d) Access to the property by unauthorised personnel,**

Any of the above would constitute unacceptable risk and are discussed in detail in the Policy under risk appetite.

11.6.2 Document action plans for risk mitigation

The action 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 and 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.

11.6.3 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 process.

Considerations around budgeting should also be put in the context of cost of risk evaluation.

12. RISK RESPONSES

Risk treatment involves identifying and evaluating the range of available options for treating a risk and the preparation and implementation of appropriate treatment plans.

12.1. Available options

- a) **Avoidance/terminate** – Exiting the activities giving rise to the risk. Examples include:
 - i. disposing of a business or a component part
 - ii. deciding not to proceed with the project/activity that gives rise to the risk
- b) **Reduction / Treating** – Action is taken to reduce the impact or likelihood, or both. Examples include:
 - i. establishing limits of authority;
 - ii. introducing new internal control measures
- c) **Sharing / Transferring** – Reducing risk likelihood or impact by transferring or sharing a portion of the risk with third parties. Examples include:
 - i. purchasing insurance products
 - ii. engaging in hedging activities
- d) **Retaining / accepting the risk** - Some level of residual risk may always be retained after the implementation of risk treatment plans and management should decide whether the remaining risk level is acceptable or not.
- e) **Exploiting the risk factors** by implementing strategies to take advantage of the opportunities presented by such risk factors.

Selecting the most appropriate response or a combination of responses involves, amongst other things, balancing the costs of implementing the treatment against the benefits to be derived. The cost of managing a risk must be commensurate with the benefits to be derived.

In instances where the management of risk is not within the control of the municipality, the response strategies should consider measures such as forward planning and lobbying.

Response strategies must be documented, and the responsibilities and timelines attached thereto should be communicated to the relevant persons.

12.2. Preparing and implementing risk treatment plans

The purpose of risk treatment plans is to document how the chosen options should be implemented. The treatment plans should include:

- i. proposed actions;
- ii. resource requirements;
- iii. responsibilities;
- iv. timing;
- v. performance measures; and
- vi. reporting and monitoring requirements

13. MONITORING AND REVIEW

Any risk profile may change over time. Risk treatment plans that were once effective may become irrelevant; control activities may become less effective, or no longer be performed; business objectives may change, or regulatory requirements may change.

This can be due to the arrival of new personnel, changes in the business structure or direction, the introduction of new systems and processes or developments in the external environment.

In the face of such changes, management needs to continually monitor the effective functioning of the risk management process. This monitoring should occur in the normal course of management activities.

1. The following monitoring mechanisms will be implemented:

a) Monitoring of implementation of risk treatment plans.

Action plans to develop and implement risk treatment plans need to be monitored to ensure that the necessary plans are implemented on schedule and as intended.

This monitoring process should be embedded within the normal day to day monitoring processes already in place within the business e.g., department meetings, management meetings, Mayoral Committee meetings etc.

Internal Audit Unit will also evaluate the status of action plans for significant risk exposures as part of their routine audits.

b) Monitoring of ongoing effectiveness of risk treatment controls

The effective operation of risk treatment controls must be evaluated on an on-going basis.

Each functional area within the business will need to develop its own plans as to the frequency and scope of these reviews considering, inter alia, legal, and regulatory requirements. These reviews may include management reviews, self-assessment reviews and third-party reviews as appropriate. Internal Audit Unit must also perform an independent review of selected risk treatment controls.

c) Identification and assessment of new/ emerging risks

There is a need to regularly review risk registers to ensure that they remain relevant and complete. This applies to strategic, functional / department and process level risk registers.

It is a general norm that this review is formally done at least once annually across all areas of the business. However, the occurrence of any one or more of the following events should trigger the need for an immediate review:

- i. Changes in business strategy
- ii. Legal & regulatory changes
- iii. Restructuring of the business or departments or processes or major changes to people, processes, and technology
- iv. Loss of key personnel
- v. Significant control deficiencies identified by internal and/or external auditors.
- vi. Major incidences of fraud
- vii. Legal liabilities and challenges
- viii. Changes to business objectives
- ix. Changes to key performance indicators

d) Monitoring of the effectiveness of the risk management process as a whole

The efficacy of the entire risk management process needs to be reviewed on a periodic basis.

The Internal Audit Unit will be responsible for performing such review and providing assurance that the risk management process has been applied appropriately across the organization and that all elements of the process are suitable and sufficient.

14. REPORTING REQUIREMENTS

14.1. Internal reporting processes for risk information

A structured process of risk reporting should be followed and should include amongst others:

- i. Each department is required to submit the top Strategic Risk Register to the Risk Management Committee on a quarterly basis
- ii. The Risk Management Committee is required to submit the strategic risks (all identified risks with unacceptable risk exposures) from departments to the Audit and Performance 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
- iii. The Chief Risk Officer will assist in the execution of the risk reporting process.

14.1.1. The frequency of risk monitoring

The Municipal Council receives reports on quarterly basis from the Audit and Performance Audit Committee on implementation and effectiveness of risk management.

14.1.2. Normal Management reporting processes

Normal Management processes such as monthly management reports/meetings must be reflecting on risk management strategies or actions to mitigate identified risks. Also, a reflection on emerging risks will be made whenever necessary to uprise entire management.

The essence of risk reporting is that the right structures must receive the right information at the right time.

Risks at all levels must be reported internally (formally and informally) at different levels within the municipality. The KSD municipality has developed its own reporting systems (Management meetings, Sec 79, 80 and other committees) considering existing management reporting processes with legal and regulatory requirements.

Please refer to the attached table to guide your risk assessment tables (Appendix B)

APPENDIX B- RATING TABLES

15. Assessment of potential impact on inherent risk.

15.1. Inherent risk exposure

Inherent risk is the product of impact and likelihood. A risk impact and likelihood are individually assessed on a scale of 5X5. The inherent risk rating is calculated by multiplying the impact rating by likelihood rating of the risk. The inherent risk exposure is determined by the inherent risk rating.

Impact being the magnitude of the risk factor on municipal objective.

Example: Impact on performance and probable cost		
Score	Impact	Consequence
5	Catastrophic	Negative outcomes or missed opportunities that are of substantial importance on the ability to achieve KSD municipal objectives
4	Critical	Negative outcomes or missed opportunities that are likely to have a relatively critical impact on the ability to meet objectives
3	Major	Negative outcomes or missed opportunities that are likely to have a relatively crucial impact on the ability to meet objectives.
2	Moderate	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives.
1	Negligible / Insignificant	Minimal or no impact on cost: Negative outcomes or missed opportunities that are likely to have a relatively negligible to no impact on the ability to meet objectives

15.2. Assessment of likelihood of occurrence of inherent risk

The table below is to be used to assist management in quantifying the likelihood (probability) of specific risk occurring.

Likelihood is the probability of the risk factor occurring in municipal objectives.

Example: Certainty of occurrence		
Score	Likelihood	Occurrence
5	Common	The risk is already occurring or is likely to occur more than once within the next 12 months. Certain to occur, almost every time
4	Likely	The risk could easily occur and is likely to occur at least once within the next 12 months. Will occur frequently, 1 out of 10 times
3	Moderate	There is an above average chance that the risk will occur at least once in the next 3 years. Will occur sometimes, 1 out of 100 times
2	Unlikely	The risk occurs infrequently and is unlikely to occur within the next 3 years. Will seldom occur, 1 out of 1000 times
1	Rare	The risk is conceivable but is only likely to occur in extreme circumstances. Will almost never occur, 1 out of 10 000 times OR The event may occur in exceptional circumstances.

Rating Table and Heat Map

The rating table will consider the impact and likelihood of the risk. The heat map is normally presented as follows:

LIKELIHOOD	Common	5	10	15	20	25
	Likely	4	8	12	16	20
	Moderate	3	6	9	12	15
	Unlikely	2	4	6	8	10
	Rare	1	2	3	4	5
		Negligible / Insignificant	Moderate	Major	Critical	Catastrophic
IMPACT						

RISK RATING

Risk Tolerance Levels				Proposed action
Likelihood * Impact	Likelihood * Impact	Risk's index	Risk Magnitude	
2*5	5*5	10 – 25	HIGH	Unacceptable. High level of control intervention required to achieve an acceptable level of residual risk. Avoid, Reduce, Share or Transfer
5*1	3*3	5 – 9	MEDIUM	Unacceptable Except under unique circumstances or conditions - Moderate level of control intervention required to achieve an acceptable level of residual risk Escalation to line management for discussion on treatment plan.
1*1	2*2	1 – 4	LOW	Acceptable. Retain for senior management for monthly monitoring. Accept.

Control Effectiveness Rating - Residual Risk Exposure (Inherent Risk x Control Effectiveness)

Risk Control Effectiveness	Interpretation	Factor	Effectiveness Percentage	Action Plan
Strong / Excellent	Controls are well designed for the risk. Risk exposure is effectively managed.	20%	80%	Review and monitor existing controls / independent assurance.
Good	Most controls are designed adequately and operate effectively. Majority of risk exposure is effectively controlled and managed.	40%	60%	Address some control weaknesses and or improve operational efficiency.
Satisfactory	Controls are designed adequately and operate effectively with average risk exposure effectively controlled and managed. However, there is still huge room for improvement in some inefficiencies.	60%	40%	Redesign processes and or controls with focus on both prevention and detection controls.
Weak	Inadequate, non-existence and or significant weaknesses in control designs with major deficiencies . There is room for major improvement.	80%	20%	Monthly monitoring and reporting should be done.

APPENDIX C- RISK CATEGORIES

16. Risk categories

The following are some of the risk categories:

As the risk environment is so diverse and complex it is helpful to group potential events into risk categories. By aggregating events horizontally across the municipality and vertically within the operational units, management develops an understanding of the interrelationship between events, gaining enhanced information as basis for risk assessment.

The main categories to group individual risk are as follows:

Risk type	Risk category	Description
Internal	Human resources	Risks that relate to human resources of the municipality. These risks can influence the municipality`s human capital regarding. i. Integrity and honesty ii. Recruitment iii. Skills and competence iv. Employee relations v. Retention and vi. Occupational health and safety.
	Knowledge and information management.	Risk relating to municipality`s management of knowledge and information. In identifying the risk consider the following aspects related to knowledge management: i. Availability of information. ii. Sustainability of the information. iii. Integrity of information data. iv. Retention and v. Safeguarding.
	Litigation	Internal litigations facilitate by our own personnel
	Loss / theft of assets	Risk that the municipality might suffer losses due to either theft or loss of an asset of the municipality.
	Service delivery	Every municipality exists to add value to its stakeholders. The risk will arise should the appropriate quality of service not be delivered to its citizens.
	Information technology	The risk relating specifically to the municipality`s IT objectives, infrastructure requirements, etc. possible considerations could include the following when identifying the applicable risk:

	<ul style="list-style-type: none"> i. Security concerns. ii. Technology availability iii. Applicability of IT infrastructure. iv. Integration / interface of the systems. v. Effectiveness of technology.
Third party performance	<p>Risk related to the municipality's dependence on the performance of a third party. Risk in this regard could be that there is a likelihood that a service provider may not perform according to the service level agreement entered with the municipality non-performance could include:</p> <ul style="list-style-type: none"> i. Outright failure to perform. ii. Not rendering the required service in time. iii. Not rendering the correct service and iv. Inadequate / poor quality of performance.
Health and Safety	<p>Risk from occupational health and safety issues e.g., injury on duty; outbreak of diseases with the municipality.</p>
Disaster recovery / business continuity	<p>Risks related to the municipality's preparedness or absence thereof to disaster that could impact the normal functioning of the municipality e.g., natural disasters, act of terrorism etc. this would lead to the disruption of processes and service delivery and could include possible disruption of operations at the onset of a crisis to the resumption of critical activities. Factors to consider include:</p> <ul style="list-style-type: none"> i. Disaster management procedures. ii. Contingency planning.
Compliance / Regulatory	<p>Risks related to compliance requirements that the municipality must meet, and consider are:</p> <ul style="list-style-type: none"> i. Failure to monitor or enforce compliance. ii. Monitoring and enforcement mechanisms. iii. Consequences of non-compliance, and iv. Fines and penalties paid.
Fraud and corruption	<p>These risks relate to improper or illegal acts by employees resulting in a loss of the municipal assets and resources.</p>
Financial	<p>Risks encompassing the entire scope of general financial management potential factors to consider include:</p> <ul style="list-style-type: none"> i. Cash flow adequacy and management thereof. ii. Financial losses. iii. Wasteful expenditure.

		<ul style="list-style-type: none"> iv. Budget allocation. v. Financial statement integrity. vi. Revenue collections; and vii. Increasing operational expenditure.
	Cultural	<p>Risk relating to municipality's overall cultural and control environment. The various factors related to organizational culture include:</p> <ul style="list-style-type: none"> i. Communication channels and their effectiveness. ii. Cultural integration. iii. Entrenchment of ethics and values. iv. Goal alignment; and v. Management style.
	Reputation	Factors that could result in the tarnishing of the municipality's reputation, public perception, and image.
External	Risk category	Description
	Economic environment	<p>Risk relating to the municipality's economic environment Factors to consider include:</p> <ul style="list-style-type: none"> i. Inflation ii. Foreign exchange fluctuations, and iii. Interest rate.
	Political environment	<p>Risk emanating from political factors and decisions that have an impact in the municipal mandate and operations. Possible factors to consider include:</p> <ul style="list-style-type: none"> i. Political unrest. ii. Local, provincial, and national elections; and iii. Changes in office bearers.
	Natural environment	<p>Risk relating to the municipality's natural environment and its impact on normal operations. Consider factors such as:</p> <ul style="list-style-type: none"> i. Depletion of natural resources. ii. Environmental degradation. iii. Spillage; and iv. Pollution.
	Technical environment	Risks emanating from the effects of advancement and changes in technology
	Legislative environment	Risks related to the municipality's legislative environment e.g., changes in legislation, conflicting legislation.

17. APPROVAL OF RISK MANAGEMENT STRATEGY:

The Audit and Performance Audit Committee will advise Council on appropriate required and or conducted changes. The strategy will be reviewed annually. However, when there are compelling reasons for update like change of law and regulations, the plan will be approved accordingly with that change.

PREPARED BY



P Madliki
Chief Risk Officer

DATE

REVIEWED BY



N. Pakade
Municipal Manager

09 - 11 - 2023
DATE

ADOPTED BY COUNCIL

CONFIRMED BY



Cllr. N Siyo-Sokuthu.
Hon. Council Speaker

Date

