

MOPANI DISTRICT MUNICIPALITY



RISK MANAGEMENT STRATEGY FOR 2022/2023

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1. INTRODUCTION

The adoption of the Municipal Finance Management Act of 2003 and the Treasury Regulations issued in terms of the Act infused the public service with a Municipality culture, which must add to its emphasis on external sanctions and include stronger internal controls with anticipatory management systems to assess the abuse of power, which is the central principle of risk management. This is why risk management is central to managing the Municipality as a whole, and why risk management is integral to planning, organising, directing and coordinating systems aimed at achieving Municipality's goals and objectives.

Risk faced by Municipality shall be managed on an enterprise wide basis whereby the Municipality will use its risk management capabilities to maximise value from its assets, resources, projects and other opportunities. The implementation of risk management process will ensure that measures are put in place in order to ensure that risks that impact the municipality's objectives are either treated, terminated, transfer or tolerated. Controls should be designed and implemented to reasonable assure the achievement of strategic and operational objectives and the effectiveness of these control shall be reviewed and where necessary improved.

2. THE NEED

The Mopani District Municipality recognises the need for risk management to feature as consideration in strategic and operational planning, day- to-day management and decision making at all level.

2.1 An effective risk management strategy helps the Municipality to meet its objectives by ensuring that everyone has a clear understanding of:

2.1.1 The objectives of the Municipality.

2.1.2 Factors that could impact on the Municipality's ability to meet those objectives.

2.1.3 The actions necessary to ensure objectives are met.

2.1.4 Improve accountability by ensuring that risks are explicitly stated and understood by all parties, that the management of risks is monitored and reported on, and that action is taken based on the results.

2.1.5 Focus on planning to deal with factors that may impact on the objectives of the Municipality and provide an early warning signal,

2.1.6 Ensure opportunities are not missed and surprise costs don't arise.

2.2 Commitment to implement risk management effectively

The Mopani District Municipality is committed to manage minimise risk by identifying, analysing, evaluating and treating risk exposure that may impact on the municipality's ability to meet its objectives. The Mopani District Municipality will incorporate risk management into the institutional planning and decision making process.

2.3 Commitment to training and knowledge development in the area of risk management

The Mopani District Municipality is committed to ensure that all staff particularly management , advisory and decision maker obtain a sound understanding of the principle of risk management and the necessary skills to implement risk management.

2.4 Commitment to monitor performance and review progress in risk management

The Mopani District Municipality will monitor the progress of mitigating the risks on a monthly basis and submit progress report to management and quarterly to Risk Committee and Audit Committee. Monitoring both financial and non-financial risks to the municipality could influence the achievement of the strategic, operational and financial objectives and enables management to add value to the strategic business planning process.

3. OBJECTIVES

The objectives of Risk Management Strategy are as follows:

- 3.1 Provide a level of assurance that current significant risks are effectively managed;
- 3.2 Improve municipality's performance by assisting and improving decision making and planning;
- 3.3 Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefits the organisation in encouraged;
- 3.4 Provide a sound basis for integrated risk management and internal control as components of good corporate governance;
- 3.5 Establish a culture of Risk Management within the Municipality;
- 3.6 Effectively manage specific risks within the Municipality such as fraud and corruption
- 3.7 Ensure that the Municipality complies with legislation, policies, and regulatory requirements

4 SCOPE OF THE STRATEGY

This strategy applies to all Mopani District Municipality councillors, officials, contractors rendering services to the municipality. The strategy extends to all current and future activities and new opportunities.

5 DEFINITIONS

Definitions in this strategy:-

Risks: Any threat or event that has a reasonable chance of occurrence in the future, which could undermine the institutions pursuit of its goals and objectives. Risk Manifest as negative impacts on goals and objectives or as missed opportunities to enhance institutional performance. Stakeholders expect Municipality to anticipate and manage risks in order to eliminate waste and inefficiency, reduce shocks and crises and to continuously improve capacity for delivering on their institutional mandates.

Risk Management: Risk management is a continuous, proactive and systematic process, effected by a Municipality's council, accounting officer, management and other personnel, applied in strategic planning and across the Municipality, 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 Municipality objectives.

Enterprise Risk Management: Enterprise risk management (ERM) is the application of risk management throughout the Municipality rather than only in selected business areas or disciplines.

Risk Analysis: Is the process that involves identifying the most probable threats to the Municipality and analysing the related vulnerability of the Municipality to the threats. This includes risk assessment, risk characteristics, risk communication, risk management, and strategy relating to risk.

Risk Assessment: Is the process concerned with determining the magnitude of risk exposure by assessing the likelihood of the risk materialising and the impact that it would have on the achievement of objectives.

Risk Identification: Is the process concerned with identifying events that produce risks that threaten the achievement of objectives.

Inherent Risks: A risk that is intrinsic (a risk which it is impossible to manage) to Municipality activity and arises from exposure and uncertainty from potential events. It is evaluated by considering the degree of probability and potential size of an adverse impact on strategic objectives and other activities.

Residual Risk: is defined as the remaining risk exposure after mitigating effects of deliberate management intervention to control such exposure. In simplest term residual risk means the remaining risk after management has put in measure to control the inherent risk.

Strategic Risks: Any potential obstacles that may impact on the ability of the Municipality to achieve its strategic objectives.

Operational Risks: Internal processes and procedures, administration of business, actual activities undertaken by the organisation.

Risk Response: The process concerned with determining how the Municipality will mitigate the risks it is confronted with, through consideration of alternatives such as risk avoidance.

Monitor: The process of monitoring and assessing the presence and functioning of the various components overtime.

“Council: The Council of the Mopani District municipality.

“Accounting Officer” means- the Municipal Manager of a Municipality.

“Audit Committee” means- an independent committee constituted to review the controls, governance and risk management within the Municipality, established in terms of section 166 of the Municipal Finance Management Act no. 56 of 2003 (MFMA).

“Chief Risk Officer” means- a senior official who is the head of the Risk Management unit.

“Risk Management Committee” A committee appointed by the Accounting Officer / Authority to review the Institution’s system of risk management

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

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“Management” means- all senior managers of the municipality other than the Accounting Officer and the Chief Risk Officer.(i.e. Level 1-4 Managers)

“Other Officials” means- all officials within the municipality other than the Accounting Officer, Chief Risk Officer and Management.

“Risk Champion” means- someone who supports and defends the risk management cause. Promotes its benefits, educate an organization’s management and staff in the actions they need to take to implement it and will encourage them and support them in taking those actions.

“Risk Owner” means- A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.

“Strategy” means- the Mopani District Municipality’s Risk Management Strategy.

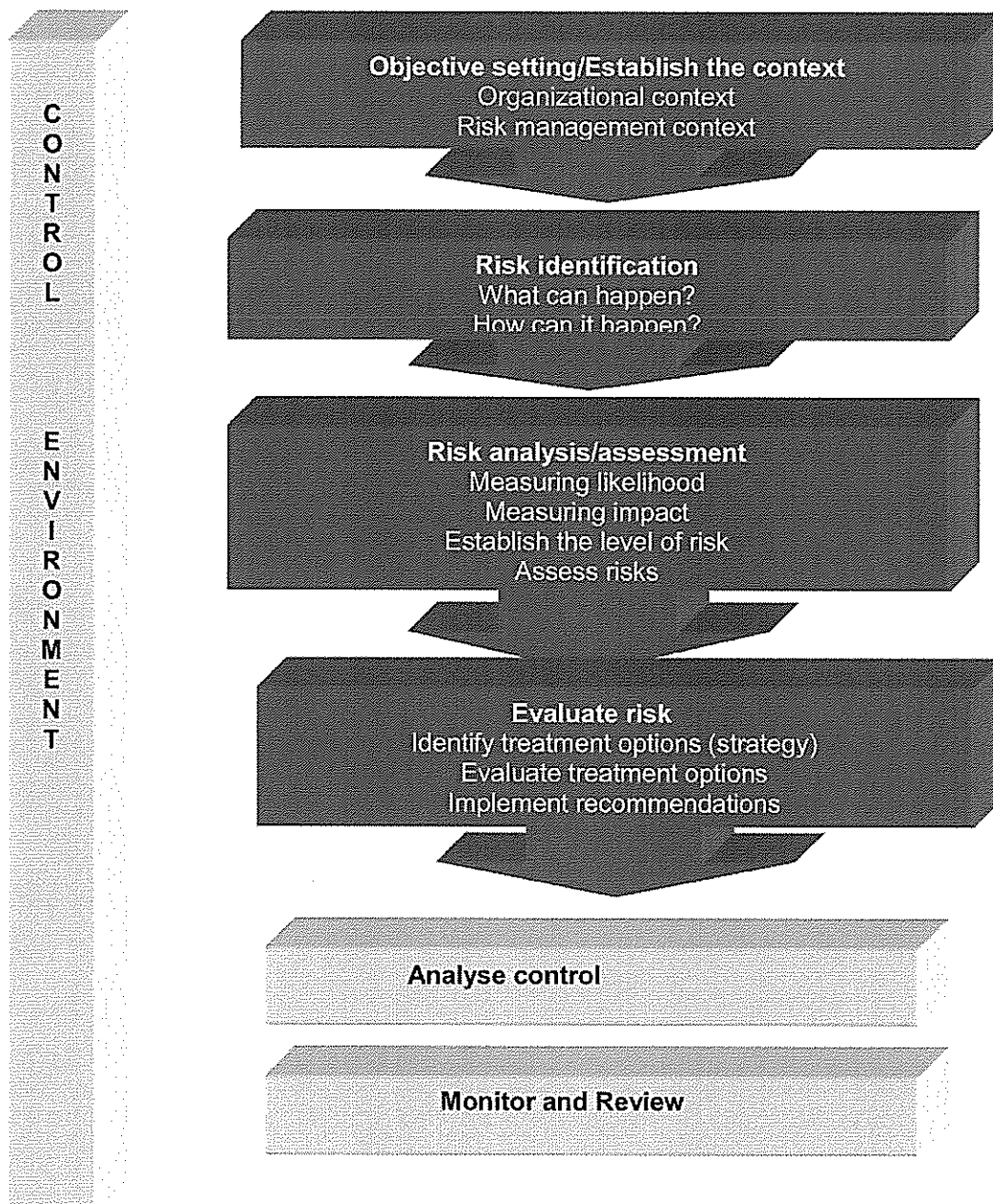
“Internal Auditing” means- an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal controls, risk management, and governance processes.

“Risk register” means is a management tool that enables an organisation to understand its comprehensive risk profile.

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6. COMPONENTS OF RISK MANAGEMENT PROCESS

Below are the systematic process followed in identifying the potential risks that might impact on the achievement of the municipality.



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6.1 Control Environment

This is the foundation for risk management within the organisation.

- It provides the discipline and structure.
- It influences how strategy and objectives are established, department activities are structured, and how risks are identified, assessed and acted upon.
- It influences the design and functioning of control activities, information and communication systems, and monitoring activities.

The control environment comprises elements such as organisational ethics & values, competencies & development of personnel, management's operating style and how it assigns authority and responsibility. The Council plays a critical role in establishing and influencing the control environment of the organisation. Management therefore establishes the Risk Management Philosophy, the risk appetite and tolerance levels, inculcates the risk culture and integrated ERM with related activities

6.2 Objective Setting/Establish Context

Objectives must exist before management can identify events potentially affecting their achievement. Risk management ensures that management has a process in place to both set objectives and align the objectives with the municipality's mission, vision, and organisational values and is consistent with the municipality's risk appetite and tolerance levels. The setting of these objectives is usually completed during the, "Strategic planning and Budgetary process."

The Municipality's objectives can be viewed in the context of four categories:

Strategic – relating to high-level goals, aligned with and supporting the municipality's mission/vision;

Operations – relating to effectiveness and efficiency of the municipality's operations, including performance and service delivery goals. They vary based on management's choices about structure and performance;

Reporting – relating to the effectiveness of the municipality's reporting. They include internal and external reporting and may involve financial or non-financial information;

Compliance – relating to the Municipality's compliance with applicable laws and regulations.

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Having confirmed and clearly documented the Municipality's objectives, it is necessary to identify all potential risks and threats relating to processes, assets and strategy. These are the possible problems and situations that may hinder the achievement of the objectives of the municipality.

6.3 Risk Identification

The Risk identification phase is a deliberate and systematic effort to identify and document the municipality's key risks. The objective of risk identification is to understand what is at risk within the context of the Municipality's objectives and to generate a comprehensive list of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives

Uncertainty prevails because outcomes of situations are not known in advance. It arises from an organisation's imperfect knowledge concerning future events. The perceived level of uncertainty depends on the information the organisation has at its disposal in order to evaluate likelihood of outcomes and the ability to evaluate such information. The degree or extent of uncertainty surrounding an event determines the extent or seriousness of the risk.

Risk has four fundamental elements;

- **Outcomes-** negative or positive, they can be traced to a specific time and place (traced to the event). E.g. damage to property; consequential losses arising due to the damage to property-repairs or loss of revenue due to business interruption; injury to people; liability claims; etc.
- **Events-** actual occurrence/the occasion or happening. E.g. a Fire, Flood, Theft, Collapsing Infrastructure (Roads, Sewer Networks etc.). These events are recorded and the information analysed.
- **Sources-** the causes of the outcomes are traceable to specific sources. (What gave rise to the event?)
- **Environmental Factors-** factors within the environment that create or increase the likelihood of the risk in occurring. E.g. a fire is highly likely to damage a furniture factory more than a steel factory; Fraud & Corruption is likely to be elevated in an organisation with prominent poor ethics and low staff morale, etc.

Identifying external and internal factors that influence events is useful to effective event identification. Once major contributing factors are identified, management can consider their significance and focus on events that can affect the achievement of objectives.

The risks facing the organisation are to be identified at strategic and operational levels at least once a year in a formal workshop, and Lower level, operationally specific risks, are then continuously identified and managed on a day to day basis in order to accommodate emerging risks.

6.3.1 Risk identification questions may include;

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

During the risk identification process, it is essential that up-to-date information is used, suitable methods, tools and techniques are followed and that people with appropriate knowledge are involved.

Risk identification methods can be both qualitative and quantitative in nature, and it is important that the appropriate methods are followed that will enhance the success of the identification process.

Risk identification methods are used to gather information in order to identify risks and to also gather more information about the risks themselves.

6.3.2 The categories to be used by the Municipality are as follows:

Risk type	Risk category	Description
Internal	Human resources	<p>Risks that relate to human resources of a municipality. These risks can have an effect on municipality's human capital with regard to:</p> <ul style="list-style-type: none"> • Integrity and honesty; • Recruitment; • Skills and competence; • Employee wellness; • Employee relations; • Retention; and

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	<ul style="list-style-type: none"> ◦ Occupational health and safety.
Knowledge and Information management	<p>Risks relating to municipality's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge management:</p> <ul style="list-style-type: none"> ◦ Availability of information; ◦ Stability of the information; ◦ Integrity of information data; ◦ Relevance of the information; ◦ Retention; and ◦ Safeguarding.
Litigation	<p>Risks that the municipality might suffer losses due to litigation and lawsuits against it. Losses from litigation can possibly emanate from:</p> <ul style="list-style-type: none"> ◦ Claims by employees, the public, service providers and other third party ◦ Failure by municipality to exercise certain right that are to its advantage
Loss \ theft of assets	<p>Risks that municipality might suffer losses due to either theft or loss of an asset of the municipality.</p>
Material resources (procurement risk)	<p>Risks relating to a municipality's material resources. Possible aspects to consider include:</p> <ul style="list-style-type: none"> ◦ Availability of material; ◦ Costs and means of acquiring \ procuring resources; and ◦ The wastage of material resources
Service delivery	<p>Every municipality exists to provide value for its stakeholders. The risk will arise if the appropriate quality of service is not delivered to the citizens.</p>
Information Technology	<p>The risks relating specifically to the municipality's IT objectives, infrastructure requirement, etc. Possible considerations could include the following when identifying applicable risks:</p> <ul style="list-style-type: none"> ◦ Security concerns; ◦ Technology availability (uptime); ◦ Applicability of IT infrastructure; ◦ Integration / interface of the systems; ◦ Effectiveness of technology; and ◦ Obsolescence of technology.
Third party performance	<p>Risks related to municipality's dependence on the performance of a third party. Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with municipality. Non performance could include:</p>

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	<ul style="list-style-type: none"> ◦ Outright failure to perform; ◦ Not rendering the required service in time; ◦ Not rendering the correct service; and ◦ Inadequate / poor quality of performance.
Health & Safety	Risks from occupational health and safety issues e.g. injury on duty; outbreak of disease within the municipality.
Disaster recovery business continuity	<p>Risks related to municipality's preparedness or absence thereto to disasters 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 the 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"> ◦ Disaster management procedures; and ◦ Contingency planning.
Compliance \ Regulatory	<p>Risks related to the compliance requirements that municipality has to meet. Aspects to consider in this regard are:</p> <ul style="list-style-type: none"> ◦ Failure to monitor or enforce compliance ◦ Monitoring and enforcement mechanisms; ◦ Consequences of non compliance; and ◦ Fines and penalties paid.
Fraud and corruption	These risks relate to illegal or improper acts by employees resulting in a loss of the municipality's assets or resources.
Financial	<p>Risks encompassing the entire scope of general financial management. Potential factors to consider include:</p> <ul style="list-style-type: none"> ◦ Cash flow adequacy and management thereof; ◦ Financial losses; ◦ Wasteful expenditure; ◦ Budget allocations; ◦ Financial statement integrity; ◦ Revenue collection; and ◦ Increasing operational expenditure.
Cultural	<p>Risks relating to municipality's overall culture and control environment. The various factors related to organisational culture include:</p> <ul style="list-style-type: none"> ◦ Communication channels and the effectiveness;

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		<ul style="list-style-type: none"> • Cultural integration; • Entrenchment of ethics and values; • Goal alignment; and • Management style or Governance.
	Reputation	Factors that could result in the tarnishing of municipality's reputation, public perception and image.
External	Risk category	Description
	Economic Environment	Risks related to the municipality's economic environment. Factors to consider include: <ul style="list-style-type: none"> • Inflation; • Foreign exchange fluctuations; and • Interest rates.
	Political environment	Risks emanating from political factors and decisions that have an impact on the municipality's mandate and operations. Possible factors to consider include: <ul style="list-style-type: none"> • Political unrest; • Local, Provincial and National elections; and • Changes in office bearers.
	Social environment	Risks related to the municipality's social environment. Possible factors to consider include: <ul style="list-style-type: none"> • Unemployment; and • Migration of workers.
	Natural environment	Risks relating to the municipality's natural environment and its impact on normal operations. Consider factors such as: <ul style="list-style-type: none"> • Depletion of natural resources; • Environmental degradation; • Spillage; and • Pollution.
	Technological Environment	Risks emanating from the effects of advancements and changes in technology.
	Legislative environment	Risks related to the municipalities' legislative environment e.g. changes in legislation, conflict legislation.

Once the initial risk identification process has been completed, management will begin to consider whether any of the risks identified are interconnected. Some risks will arise based on the existence of another risk

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as risks do not occur in isolation and thus the events can take place concurrently. By assessing the relationship of these risks, one can determine where risk management efforts can best be directed. Furthermore, management must ensure that well controlled risks are also documented in the risk profile of the organisation. The process of risk identification must ignore at this point any mitigating factors in order to ensure that all risks are identified irrespective of their status.

A comprehensive list of relevant risks should be generated, including a description of each risk, how it might arise, the possible initiating factors, the main assumptions and listing of the principle sources of information. This information may be incorporated into the risk register.

To ensure comprehensiveness of risk identification the municipality should identify risks through considering both internal and external factors, through appropriate processes of:

6.3.3 Strategic risk identification

To identify risks emanating from the choices made by the municipality, specifically with regard to whether such choices weaken or strengthen the municipality's ability to execute its Constitutional mandate:

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

6.3.4 Operational risk identification

To identify risks concerned with the municipality's operations:

- Operational risk identification seeks to establish vulnerabilities introduced by employees, internal processes and systems, regulatory authorities and external events;
- 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

- Operational risk identification should be repeated when changes occur such as significant environmental or institutional changes, or at least once a year, to identify new and emerging risks.

6.3.5 Project risk identification

To identify risks inherent to particular projects:

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

6.4 Risk Assessment

Once a year, the municipality will undertake a through reassessment of its risks at all levels using the following methodology:

- A risk assessment is the process by which the risk to be managed in an organisation are identified. Comprehensive identification using 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 wherein all senior management(Senior Managers), middle management(Assistant Directors), Managers and Risk champions will be in attendance.
- The assessment will be done during budget process and IDP process for alignment purpose and also to be able to budget for risks that will need budget.
- At a minimum a risk assessment should result in:
 - Identification of relevant risks towards the achievement of objectives; and
 - The prioritisation of risk, which often necessitates estimating the timing, magnitude and probability of risk occurrence
 - The first part of carrying out a structures risk assessment is to profile the key building blocks of the municipality

Risks should be assessed on the basis of the likelihood of the risk occurring and the impact of its occurrence on the particular objective it is likely to affect. The risk assessment is performed using a 3 step process.

Steps will involve:

- Inherent risks are identified, analysed and evaluated,

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- Existing controls are assessed for degree of effectiveness,
- Residual risks are determined, and
- Mitigation strategies are effected.

Risks are assessed based on the impact it might have if it does occur and also the chance of it(likelihood)

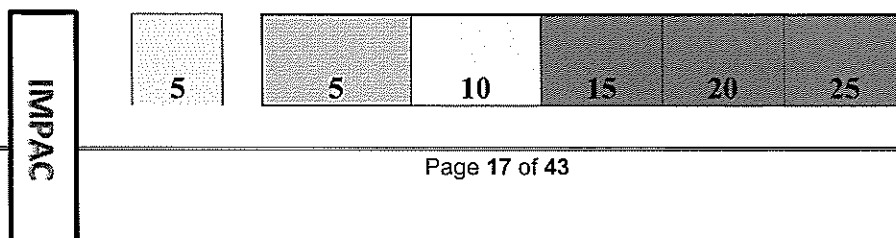
Impact criteria that will be used by municipality to rate risks:

Rating	Assessment	Definition
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives
2	Minor	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives
3	Moderate	Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives
4	Major	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives
5	Critical	Negative outcomes or missed opportunities that are of critical importance to the achievement of the objectives

Below are the likelihood criteria that will be used by the municipality to rate risks:

Rating	Assessment	Definition
1	Rare	The risk is conceivable but is only likely to occur in extreme circumstances
2	Unlikely	The risk occurs infrequently and is unlikely to occur within the next 3 years
3	Moderate	There is an above average chance that the risk will occur at least once in the next 3 years
4	Likely	The risk could easily occur, and is likely to occur at least once within the next 12 months
5	Common	The risk is already occurring, or is likely to occur more than once within the next 12 months

The scores to the risk matrix to indicate what areas of the risk matrix would be regarded as high, medium or low risk. **Risk Index = Impact X Likelihood**



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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
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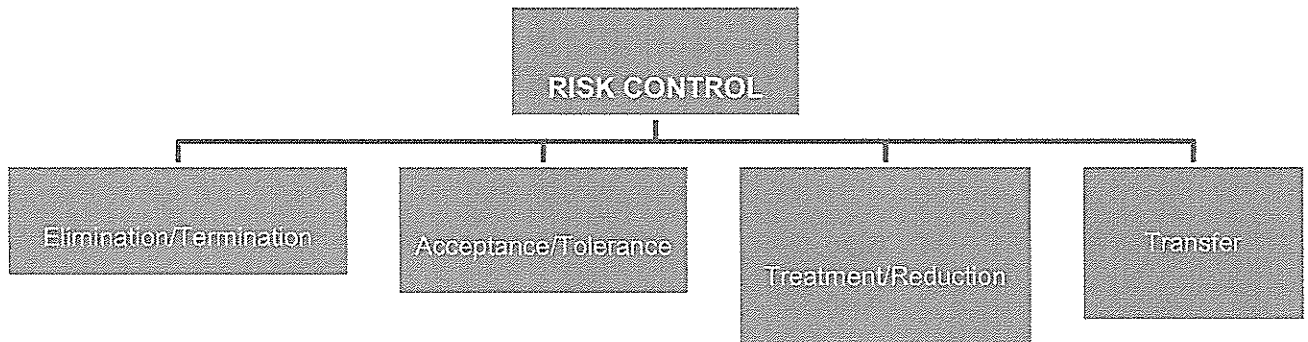
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6.5 Risk response

Risk response is concerned with developing strategies to reduce or eliminate the threats and events that create risks. Risk response involves identifying and evaluating the range of possible options to address risks and implementing the chosen option. Risk response strategies go hand-in-hand with control measures and are developed taking into consideration the effectiveness of the controls in place to mitigate risks.

Management should develop response strategies for all material risks, prioritising the risks exceeding or nearing the risk appetite level. Response strategies should be documented together with the responsibilities and timelines.

Figure 1- Risk responses fall within the following Risk Control Techniques:



Technique	Description
Elimination/ Termination	Management takes action to remove the activities that give rise to the risks, eliminating the potential for loss.
Acceptance/ Tolerate	Management accepts the risk and makes an informed decision to accept both the impact and likelihood of risk events but with intention to manage and monitor (treat) the risks.

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Reduction	Reducing the <u>likelihood</u> of occurrence or the <u>severity</u> of the loss should it occur.
Transfer	Transferring the consequences of the loss, should it occur, to another party. Steps are taken to shift the loss to a third party such as insuring and outsourcing. (Is another organization better placed to manage the risk?) NB: The organisation only shifts the <u>consequences</u> of the loss but remains accountable for the risk itself.

6.6 Analyse the Controls

Risk Control entails any activity aimed at preventing losses or minimising the consequences of losses that may arise from all operational risks facing the organisation.

Risk responses serve to focus attention on control activities needed to help ensure that the risk responses are carried out properly and in a timely manner. Control activities are part of the process by which a municipality strives to achieve its objectives.

Control activities are the policies and procedures that help ensure that management responses are properly executed. They occur throughout the municipality, at all levels and in all functions.

Management is responsible for designing, implementing and monitoring the effective functioning of system internal controls. Without derogating from the above, everyone in the municipality should also have responsibilities for maintaining effective systems of internal controls, consistent with their delegated authority.

6.7 Monitoring and review

Risk identified will be regularly monitored on a monthly basis and directorates will be expected to submit the progress made in addressing/mitigating their departmental risks. Monitoring can be done in t through ongoing activities. This will ensure that risk management continues to be applied at all levels across the Municipality.

Monitoring activities should focus on:

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- **Monitoring of risk action plans** - Risk action plans need to be monitored on an ongoing basis to ensure the necessary actions are implemented on schedule and as intended.
- **Monitoring of controls** - The effective operation of existing controls as well as their cost effectiveness needs to be evaluated regularly. Evaluations may include management reviews, self assessment reviews and third party reviews as appropriate. Internal audit should also perform periodic reviews on existing controls as well as the implementation of necessary additional controls on a periodic basis.
- **Monitoring of new and emerging risks** - The risk profile of any organisation will change over time. Thus there is a need to monitor and review the risk profile of the Municipality to ensure that it remains relevant and complete. Changes in strategy, the legal and regulatory environment, restructuring, loss of key personnel, significant control deficiencies, fraud, changes in business objectives will require an immediate review of municipal risk profiles.
- **Monitoring of the effectiveness of the risk management process** - The efficiency of the entire risk management process should be monitored periodically. A positive correlation should exist between improvements in the system of risk management as well as institutional performance.

Monthly progress risk report will be discussed at management meeting and the quarterly risk report to Audit Committee and Risk Management Committee.

6.8 Risk reporting

The risk management committee will report to the Accounting Officer as depicted in the risk management strategy and also as depicted in the heading number 7 where it reflects the risk management reporting structure.

7. Municipality Risk Appetite and Tolerance Level

7.1 Risk Appetite

Risk appetite is the amount of risk, on a broad level, the municipality is willing to accept in pursuit of value. It reflects the institution's risk management philosophy, and in turn influences the institution's culture and operating style. In practice some institutions consider risk appetite **qualitatively** (it provides focus and focus provides improvement), with such categories as high, medium, or low, while others take a **quantitative** (is the key to making better municipality decisions) approach, reflecting and balancing goals for growth, return, and risk.

Improved risk quantification supplements the traditional focus on common ERM benefits such as:

- Improved controls;
- Better communication and;

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- Common risk Language.

Risk appetite is directly related to municipality strategy and is considered at strategy setting, where the desired return from strategy should be aligned with the municipality appetite. Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensure that management has in place a process in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.

The Importance of defining Risk Appetite

- Promotes a shared view amongst Council, Audit and Risk Management Committee;
- Allows for alignment of risk appetite and strategy which is essential for creating an integrated risk management framework;
- Should improve consistency in decision making;
- Risk management maintains that a defined number of failures can be tolerated if the costs of guarding against them is more expensive than the risks they impose;
- Serves as a key input into strategic planning processes on two levels:
 - Evaluating strategic alternatives;
 - Setting objectives and developing mechanisms to manage the related Risks;
- Assists management more efficiently allocate and manage resources;
- Provides a framework risk-taking boundaries as well as a benchmark for acceptable level of risk.

Management considers its risk appetite as it aligns its municipality, people and processes, and designs infrastructure necessary to effectively respond to and monitor risks.

7.2 Risk Tolerance

Risk tolerances are the acceptable levels of variation relative to the achievement of objectives. Risk tolerances can be measured, and often are best measured in the same units as the related objectives. Performance measures are aligned to help ensure that actual results will be within the acceptable risk tolerances.

In setting Risk tolerances, management has considered the relative importance of the related objectives and aligns risk tolerances with risk appetite. Operating within risk tolerances provides management greater

assurance that the municipality remains within its risk appetite and, in turn, provides a higher degree of comfort that the municipality will achieve its objectives.

Rationale on which the municipality needs to determine the risk tolerance level

Since the Municipality has taken a stance towards implementation of risk management, it is quite imperative that management should have sufficient guidance on the levels of risks that are legitimate for them to take during execution of their duties.

By clearly articulating the risk tolerance level, it will among other things assist the Municipality in:

- Showing how different resource allocation strategies can add to or lessen the burden of risk;
- Enhancing decision making processes;
- Improved understanding of risk based audits;

Recommended model for the municipality risk tolerance level

The residual risks (*exposure arising from a specific risk after controls to minimize risk have been considered*) will be used to determine the risk tolerance level. The following risk tolerance level model is recommended with regard to all risks facing the Mopani District Municipality:

Risk priority	Risk acceptability	Proposed actions
High risks	Unacceptable	<ul style="list-style-type: none"> • Action plans (avoid/transfer/Reduce) • Allocate resources • Contingency plans • Remedial actions • HOD's attention required Drastic action plans needed to reduce the risk • Continuous monitoring
Medium risks	Unacceptable	<ul style="list-style-type: none"> • Implement further actions to reduce likelihood of risk occurrence • Draw action plans to mitigate risks • Senior Management attention required • Monitor at least monthly

Low risks, except those falling within financial and fraud categories	Acceptable	<ul style="list-style-type: none"> • No further risk reduction required • Continue control • Monitor at least annually
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Impact categories:

Per risk identified, the impacts are assessed for each of the following categories:

Financial resources	The impact of an event on the Municipality's financial stability and ability to maintain funding for the activities that is critical to its mission.
Material resources	The impact of an event on the material resources—such as assets and property—that a government uses in the activities that are critical to its mission.
Human resources	The impact of an event on the Municipality's workforce.
Service delivery	The impact of an event on the Municipality's ability to deliver services.
Public perception of Municipality	The impact of an event on the public's perception of the Municipality and on the degree of cooperation the public is willing to give in conducting the activities that are critical to its mission.
Liability to third parties	The impact of an event on the Municipality's liability to third parties.
Environment	The impact of an event on the environment and people who use it.
Public	The impact of an event on the public

Inherent risk exposure (impact x likelihood) and refer to risk mapping above:

Risk rating	Inherent risk magnitude	Response
15 - 25	High	Unacceptable level of risk – Maximum level of control intervention required to achieve an acceptable level of residual risk
8 – 14	Medium	Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention required to achieve an acceptable level of residual risk.
1 - 7	Low	Mostly acceptable – Low level of control intervention required, if any.

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Residual risk exposure (inherent risk x control effectiveness) and refer to risk mapping above:

Risk rating	Residual risk magnitude	Response
15- 25	High	Unacceptable level of residual risk – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation.
8 – 14	Medium	Unacceptable level of residual risk – Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or a more emphasis on proper implementation.
1 – 7	Low	Mostly acceptable level of residual risk – Requires minimal control improvements.

The qualitative criteria that will be used by municipality to assess likelihood are:

- Geographical dispersion of operations;
- Complexity of activities – management judgments;
- Pressure to meet objectives;
- Frequency of losses;
- Competency, adequacy and integrity of personnel;
- Vague objectives/mandates;
- Time constraints;
- Potential of conflict of interest; and
- Susceptibility of the asset to misappropriation.

The prioritised risks will inform both the scope of internal audit and the risk management committee. Both these support structures will primarily focus on the risks assessed as high, medium and low successively.

Perceived Control Effectiveness

EFFECTIVENESS CATEGORY	CATEGORY DESCRIPTION	Not working FACTOR
VERY GOOD= 80%	Risk exposure is effectively controlled and managed	20%
GOOD	Majority of risk exposure is effectively controlled and managed	40%

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SATISFACTORY	There is room for some improvement	65%
WEAK	Some of the risk exposure appears to be controlled, but there are major deficiencies	80%
UNSATISFACTORY=10%	Control measures are ineffective	90%

8. Fraud management

As instances of fraud remain a constant threat to public trust and confidence, it becomes essential to recognize fraud risk management as an integral part of strategic management and the Institution is therefore adopting a comprehensive approach to the management of fraud risks. Management's agenda is to focus on efforts to:

- Understand the fraud risks that can undermine the institution's business objectives;
- Determine whether fraud prevention programmes and controls are actually effective in reducing instances of fraud;
- Gain insight into better ways of designing and evaluating controls to prevent, detect and respond appropriately to fraud;
- Reduce exposure to liability, sanctions and litigation that may arise from violations of law or stakeholder expectations;
- Derive practical value from the development of a sustainable process of managing fraud risk and improving performance; and
- Achieve the highest levels of business integrity through sound corporate governance, internal control and transparency.

The features of this process are outlined in the Institutional Fraud Prevention Strategy. It is expected that all personnel will adhere to the fraud prevention strategy. It is the intention that individual personnel, as well as business units will work together in a consistent and integrated manner, with the overall objective of reducing fraud risk. Effective fraud risk management is imperative to the Institution to fulfil its mandate, the service delivery expectations of the public and the performance expectations within the Institution.

9. RISK MANAGEMENT RESPONSIBILITIES AND REPORTING STRUCTURE

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All personnel have a responsibility for maintaining good internal control and managing risk in order to achieve personal, workgroup and strategic 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 municipality, its objectives, the risks it faces and the people we deal with. Everyone should be aware the risks they are empowered to take, which should be avoided and reported upwards. The structures through which risk management will be reported are set out below.

9.1 MANAGEMENT COMMITTEE, RISK MANAGEMENT COMMITTEE AND AUDIT COMMITTEE RESPONSIBILITIES

No	Activity	Responsibility	Frequency
1	The Audit Committee will meet on a quarterly basis	Audit Committee Chairperson	Quarterly
2	The Risk Management Committee will review risk management progress on a quarterly basis.	Risk Management Committee Chairperson	Quarterly
3	The Management committees will meet on a monthly basis	Municipal Manager	Monthly

9.2 REPORTING RESPONSIBILITIES

No	Activity	Responsibility	Frequency
4	The Audit Committee will include statements regarding risk management performance in the annual report to Council	Chairperson of Audit Committee	Quarterly
5	The Risk Management Committee will submit a risk management report to Audit Committee on a quarterly basis.	Chief Risk Officer	Quarterly

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	<p>The report will include the following:</p> <ul style="list-style-type: none"> • The top ten(10) strategic risks facing MDM • Report from Chairperson of Risk Committee • Resolution taken by Risk Management Committee • Progress report on fraud cases if any 		
6	Each directorate will be responsible for submitting the progress report on their operational and strategic risks identified within their directorates.	All Senior Managers	Monthly
7	The Chief Risk Officer will be responsible for consolidating all monthly risk progress report received from directorates.	Chief Risk Officer	Monthly

9.3 RISK ASSESSMENT RESPONSIBILITIES

8	The management will independently review the key risks of the municipality at least once a year.	Municipal Manager	Annually
9	The Risk Management Committee will re-arrange for the top ten risks strategic risks and top ten operational risks.	Members of the Committee	Annually

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10	Each directorate will reassess their risks annually and identify any emerging risks.	All Senior Managers	Annually
11	The Chief Risk Officer will be responsible for the facilitation of all risk assessment and populating the risk register	Chief Risk Officer	Annually

9.4 CONTROL RESPONSIBILITIES

12	The Risk Management Committee will report to Audit Committee regarding the performance of internal controls for those risks in the risk registers	Chairperson of Risk Management Committee	Quarterly
13	All directorates will report the performance of operational and strategic risks identified within their respective directorates	All Directors	Monthly
14	The risk register will contain the action plan for improving risk controls and the due dates thereof.	All Directors	Annually

9.5 GOVERNANCE RESPONSIBILITIES

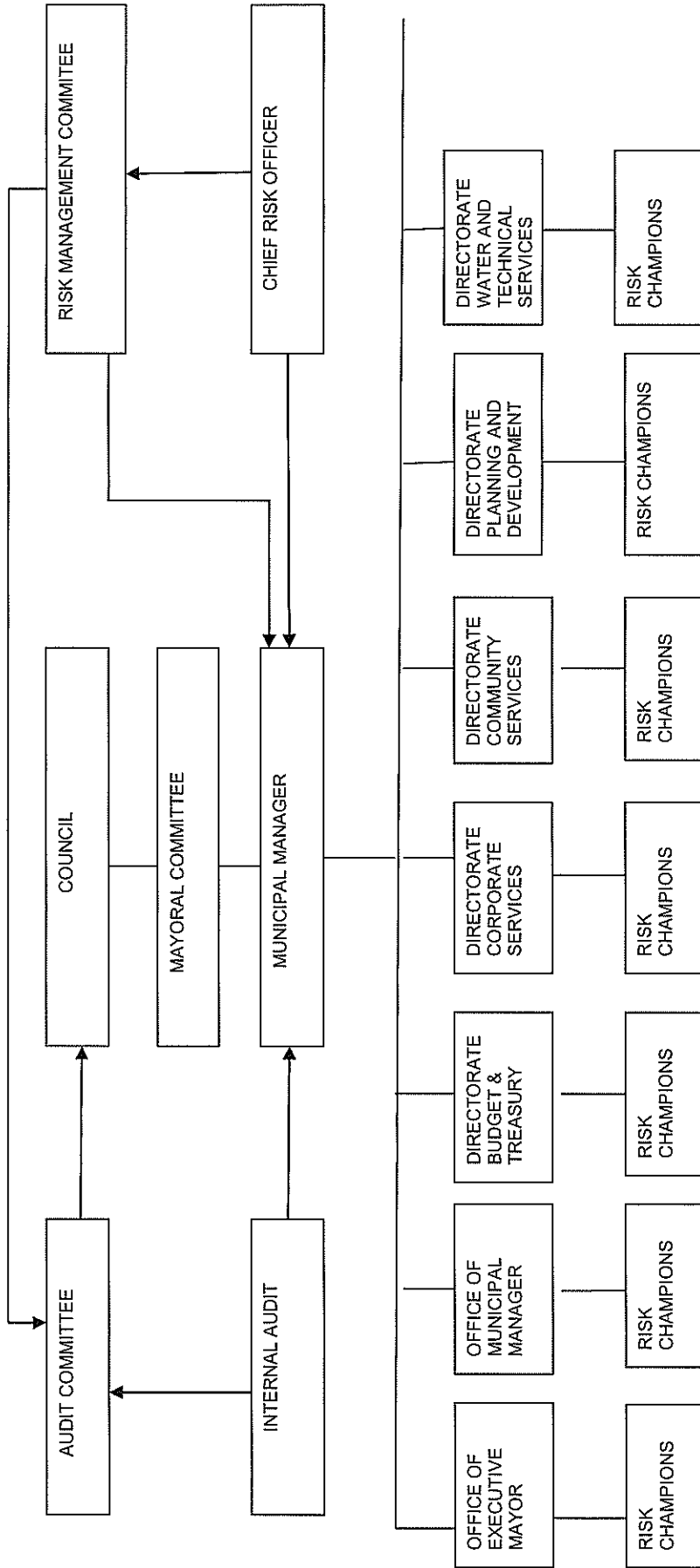
15	Each directorate will have a nominated risk champions who will be responsible for the following: Updating the risk information Providing assurance regarding the risks controls	Risk Champions	Monthly
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	Co-ordinate the implementation of action plans for the risks Reporting any developments regarding the risk.		
16	The Internal Audit unit will use the output of risk assessment to compile their three(3) year annual internal audit plan and will evaluate the effectiveness of risk controls	Internal Audit	Annually
17	The Internal Audit will review the effectiveness of risk management process while executing their plan and submit their report to the Audit Committee for consideration	Internal Audit	Annually

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10. ORGANISATIONAL REPORTING STRUCTURE



11. ESTABLISHMENT OF RISK MANAGEMENT COMMITTEE

The Municipality has established a Risk Management Committee which is a committee of management. The committee was appointed in writing by the Accounting Officer. All representatives are members of management except for the Accounting Officer. The committee is chaired by an independent person who is outside the employ of Mopani District Municipality.

12. RESPONSIBILITIES & FUNCTIONS OF THE RISK MANAGEMENT COMMITTEE

- Oversee the development and review of the risk management strategy, policy and implementation plans and recommend for approval by the Accounting Officer;
- Review the risk appetite and tolerance levels and recommend for approval by the Accounting Officer;
- Oversee the development and review of the institution's risk identification and assessment methodologies to ensure the completeness and accuracy of the risk registers;
- Monitor the implementation of the risk policy, strategy and implementation plans to ensure their effectiveness and efficiency;
- Evaluate the effectiveness of mitigating strategies to address the material risks of the Institution;
- Report to the Accounting Officer any material changes to the risk profile of the Institution;
- Undertake impact assessments of emerging risks that face the organization on an ongoing basis;
- Review the fraud prevention strategy/ policy and plans; and recommend for approval by the Accounting Officer;
- Evaluate the effectiveness of the implementation of the fraud prevention strategy;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;
- Develop goals, objectives and key performance indicators for the Committee for approval by the Accounting Officer;
- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management function;
- Ensure that continuous risk monitoring by management takes place;
- Set out the nature, role, responsibility and authority of the risk management function within the Institution for approval by the Accounting Officer, and oversee the performance of the risk management function;
- Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

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13. RESPONSIBILITIES COUNCIL

As risk management is an important tool to support the achievement of this goal, it is important that Council should provide leadership to governance and risk management.

High level responsibilities of the Council in risk management include:

- Providing oversight and direction to the Accounting Officer on risk management related strategy and policies;
- Having knowledge of the extent to which the Accounting Officer and management has established effective risk management in their respective institutions;
- Awareness of and concurring with the municipality's risk appetite and tolerance levels;
- Reviewing the municipality's portfolio view of risks and considers it against the institution's risk tolerance;
- Influencing how strategy and objectives are established, municipality activities are structured, and risks are identified, assessed and acted upon;
- Requiring that management should have an established set of values by which every employee should abide by;
- Insist on the achievement of objectives, effective performance management and value for money.

In addition the Executing Authority should consider the following aspects below which if not considered could affect the institution's risk culture:

- The design and functioning of control activities, information and communication systems, and monitoring activities;
- The quality and frequency of reporting;
- The way the municipality is managed including the type of risks accepted;
- The appropriateness of reporting lines.

In addition the Executing Authority should:

- Assign responsibility and authority;
- Insist on accountability.

14. RESPONSIBILITIES OF ACCOUNTING OFFICER

The Accounting Officer shall be responsible for the following:

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- a. Setting the tone at the top by supporting Enterprise Risk Management and allocating resources towards Establishing the necessary structures and reporting lines within the institution to support Enterprise Risk Management(ERM);
- b. Place the key risks at the forefront of the management agenda and devote attention to overseeing their effective management,
- c. Approves the institution's risk appetite and risk tolerance,
- d. Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities,
- e. Leverage the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management,
- f. Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored,
- g. Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

15. RESPONSIBILITIES OF MANAGEMENT

Management is responsible for:

- a. Integrating risk management into planning, monitoring and reporting processes, and the daily management of programs and activities,
- b. Creating a culture where risk management is encouraged, practised, rewarded and risk management infrastructure is provided.
- c. Aligns the functional and institutional risk management methodologies and processes,
- d. Implements the directives of the Accounting Officer concerning risk management,

- e. Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions risk management.

16. RESPONSIBILITIES OF INTERNAL AUDIT

The role of internal audit is, but not limited, to provide assurance of the Municipality on the risk management process.

These include:

- a. Provides assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems around risk management,
- b. Provides assurance over the Municipality 's risk identification and assessment processes,
- c. Utilises the results of the risk assessment to develop long term and current year internal audit plans,
- d. Provides independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the institution.

17. RESPONSIBILITIES OF THE CHIEF RISK OFFICER

- a. Develop risk management implementation plan of the Municipality,
- b. Works with senior management to develop the overall enterprise risk management vision, strategy, policy, as well as risk appetite and tolerance levels for approval by the Accounting Officer,
- c. Communicates the risk management policy, strategy and implementation plan to all stakeholders in the institution,
- d. Continuously driving the risk management process towards best practice,
- e. Developing a common risk assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Accounting Officer.
- f. Coordinating risk assessments within the Municipality/ component / sub-component as outlined in the policy,

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- g. Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, Municipality's restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously.
- h. Assisting management in developing and implementing risk responses for each identified material risk,
- i. Participating in the development of the combined assurance plan for the institution, together with internal audit and management,
- j. Ensuring effective information systems exist to facilitate overall risk management improvement within the institution,
- k. Collates and consolidates the results of the various assessments within the institution,
- l. Analyse the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends,
- m. Compiles the necessary reports to the Risk Management Committee,
- n. Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans occupational health, safety and environmental policies and practices and disaster management plans,
- o. Report administratively to Accounting Officer and functionally to Risk Management Committee.

18. ROLE OF ALL OFFICIALS

Each official will be responsible for:

- a. Identifying and controlling risks appropriate to his/her position.
- b. Reporting any risks to his/her immediate supervisor on a timely basis.
- c. Ensuring that proper and sound system of internal controls is appropriately maintained to ensure that all risks identified are alleviated to tolerable levels through risk mitigation / treatment plan approved by Accounting Officer.

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19. ROLE OF RESPONSIBILITY RISK OWNERS

Risks should be identified at a level where a specific impact can be identified and a specific action or actions to address the risk can be identified. All risks, once identified, should be assigned to an owner who has responsibility for ensuring that the risk is managed and monitored over time.

A risk owner, in line with their accountability for managing the risk, should have sufficient authority to ensure that the risk is effectively managed. The risk owner need not be the person who actually takes the action to address the risk. Risk owners should however ensure that the risk is escalated where necessary to the appropriate level of management.

It is the responsibility of the Risk Owner to:

- a. Ensure that divisions are effectively implementing the Risk Management Strategy,
- b. Identify and report fraudulent activities within their Unit,
- c. Conduct preliminary inquiry on any alleged incident that is on conflict with the Code of Conduct for the Public Service and draft a report for the investigators,
- d. Provide support on investigations by facilitating the obtaining of information in any form [electronic, documentary, etc] by investigators, in line with the applicable regulations,
- e. Be a point of entry for investigators and risk management officials within their respective units.
- f. Setting the tone at the top by supporting Enterprise Risk Management and allocating resources towards Establishing the necessary structures and reporting lines within the institution to support Enterprise Risk Management (ERM);
- g. Place the key risks at the forefront of the management agenda and devote attention to overseeing their effective management,
- h. Approves the institution's risk appetite and risk tolerance,
- i. Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities,
- j. Leverage the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management,
- k. Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored,

- I. Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

20. RESPONSIBILITIES OF AUDIT COMMITTEE

The responsibilities of the audit committee with respect to risk management is as follows:

- Provide an independent and objective view of the effectiveness of the municipality's risk management.
- Review recommendations made by Risk Management Committee and consider these in line with the audit committee charter.
- Provide feedback to the accounting officer and municipal council on the adequacy and effectiveness of risk management in the municipality.
- Report to the Accounting Officer any material changes to the risk profile of the Institution;
- Undertake impact assessments of emerging risks that face the organization on an ongoing basis;
- Evaluate the effectiveness of the implementation of the fraud prevention strategy;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;
- Ensure that continuous risk monitoring by management takes place at all functional levels within the municipality;
- Set out the nature, role, responsibility and authority of the risk management function within the Institution for approval by the Accounting Officer, and oversee the performance of the risk management function;
- Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.
- Monitor the implementation of Risk Management implementation plan.

For assurance purposes, the committee's duties are as follows;

- To review and critique the risk appetite and risk tolerance levels of the municipality on an on-going basis, and make recommendations for approval to the Accounting Officer;

- To review the completeness of the risk assessment process implemented by management to ensure that all possible categories of risk, both internal and external to the municipality, have been identified during the risk assessment process
- To monitor the progress made with the management action plans;
- To review the progress made with regards to the implementation of the risk management strategy of the institution;
- To facilitate and monitor the coordination of all assurance activities implemented by the municipality;
- To review and recommend any disclosures in the Annual Financial Statements in terms of risk management;
- To provide regular feedback to the Accounting Officer on the effectiveness of the risk management process implemented by the municipality;
- To review the process implemented by management in respect of fraud prevention and ensure that all fraud related incidents have been followed up appropriately;
- To review and ensure that the internal audit plans are aligned to the risk profile of the municipality;
- To review the effectiveness of the internal audit assurance activities and recommends appropriate action to address any shortcomings.
- To review the risk profile and adequacy of management action plans/responses to address the identified risks;

21. RESPONSIBILITIES OF AUDITOR GENERAL

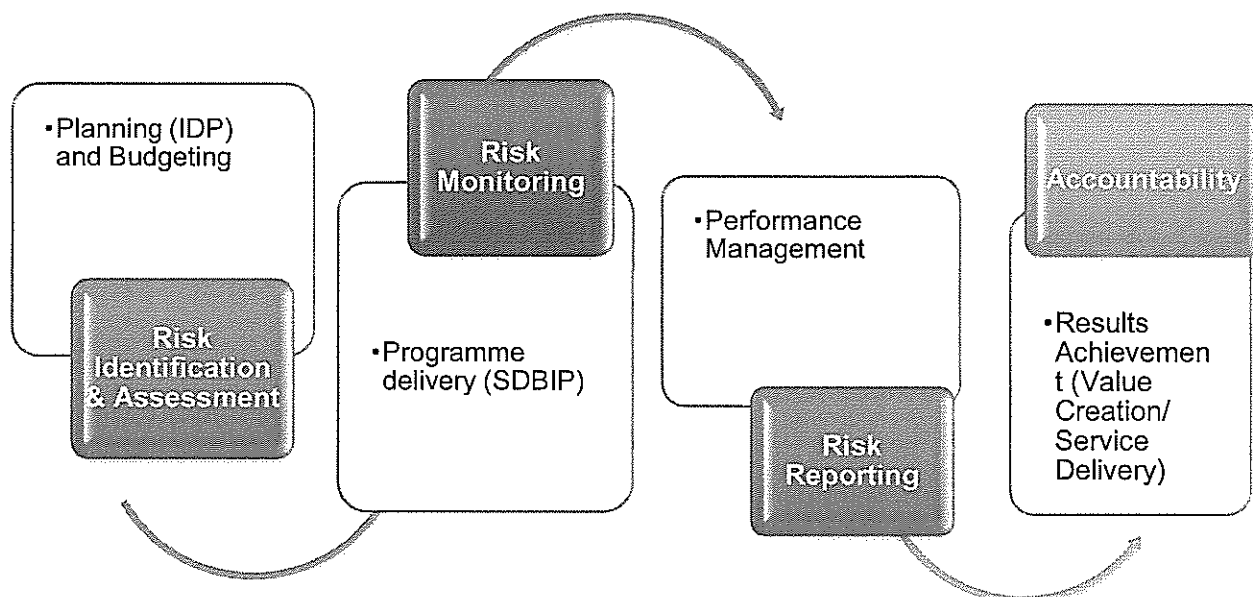
The Auditor-General is responsible for providing an opinion on:

- The reasonability of the Annual Financial Statements of the Institution; and
- Compliance with applicable legislation.

In addition to this, the Auditor-General is required to highlight weaknesses or deficiencies in the performance reporting of the institution. In providing an Audit Opinion on compliance with legislation, the Auditor-General will provide independent assurance on the efficiency and effectiveness of risk management activities of the institution.

22. INTEGRATING RISK MANAGEMENT PLANNING PROCESS

The developed risk management planning process includes a sequence of activities that will occur every year. The risk management planning process is a limited but focused set of strategic objectives that inform the risk management planning process. The planning process links risk management with the day-to-day activities of Units within Municipality. This can be depicted in a diagram below



23. RIEVIEW OF THE STRATEGY

The Risk Management Strategy shall be reviewed annually by the Risk Management Committee & Audit Committee members if need be and recommend to the Accounting Officer for approval and final approval by Council.

24. DEFAULT

24.1 Failure to comply with policy will be viewed as a serious disciplinary transgression.

24.2 Any dispute arising from this policy due to ambiguous wording or phrasing must be referred to the Local Labour Forum policy for adjudication. Resolution from the LLF must be incorporated into the policy.

25.AVAILABILITY OF POLICY

25.1. Every staff member upon being appointed in the service of the Council will be supplied with a copy of this policy and shall acknowledge receipt thereof by signing a duplicate thereof. The said duplicate shall be filled on the personal file of the staff member.

ANNEXURE A (TERMINOLOGY USED IN RISK IDENTIFICATION)

Below is a common language used during Risk Identification (but not limited to):

- ✓ Lack of
- ✓ Insufficient
- ✓ Inappropriate
- ✓ Failure to
- ✓ Ineffective
- ✓ Inefficient
- ✓ Incorrect
- ✓ Inaccurate
- ✓ Incompetent
- ✓ Non-compliance
- ✓ Excessive

- ✓ Increase
- ✓ Over/Under
- ✓ Irrelevant
- ✓ Non-alignment
- ✓ Lost Opportunity
- ✓ Shortage of
- ✓ Changes to
- ✓ Intolerable

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26. RISK REGISTER TEMPLATE

Example Risk Register Template



DIRECTORATE NAME:

MDM Strategic Objective	Key Performance Area	Risk Description	Root Cause	Consequence	Risk Category	Inherent risk			Control assessment		Residual Risk Score	Priority	Risk Response	Further Action to be taken	Action Owner	Due Date/ Frequency	
						Impact	Likelihood	Score	Current control	Effectiveness (Quality)							Effectiveness Factor

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25 COMMENCEMENT

25.1 This strategy shall come into effect on the date of adoption by Council.

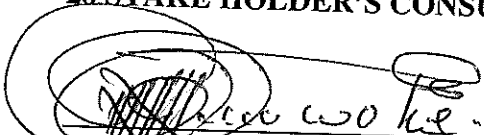
26 REVIEW OF THE POLICY


26.1 The strategy shall be reviewed annually, or as and when necessary to do so.

27 REPEAL

27.1 The strategy shall repeal all previous policies formulated before its approval.

28 STAKE HOLDER'S CONSULTATION


SAMWU


IMATU


31/05/2022
DATE

31/05/2022
DATE

29. ADOPTION BY COUNCIL:

Council Resolution Number:	Approved Date: 31 MAY 2022
Effective Date: 31 MAY 2022	Review Date: 24 MAY 2022

30. AUTHORITY


MUNICIPAL MANAGER

31/05/22
DATE


COUNCIL SPEAKER

31/05/22
DATE