

# **BA-PHALABORWA LOCAL MUNICIPALITY**



## **RISK MANAGEMENT STRATEGY**

**2022/23**

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## 1. INTRODUCTION

The underlying premise of risk management is that every institution exists to provide value to its stakeholder. All institutions face uncertainty and the challenge to management is to determine how much uncertainty to accept as it strives to achieve the goals and objectives. Uncertainty provides both risk and opportunity with the potential to erode or enhance value Risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

The Ba-Phalaborwa Municipality's Risk Management strategy outlines a high level plan on how the municipality will go about implementing the risk management policy. The strategy is informed by the risk management policy and the municipality's risk profile.

The following are the main thrust to the strategy:

- Policy
- Objectives
- Benefits
- Principles
- Roles and responsibilities
- Guidelines

## 2. DEFENITION

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

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

## 3. BACKGROUND

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

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

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

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

#### 4. RISK MANAGEMENT POLICY

The Accounting Officer has committed Ba-Phalaborwa Municipality to a process of risk management that is aligned to the principles of good corporate governance, as supported by the **Municipal Finance Management Act (MFMA), Act no 56 of 2003**.

Risk management is recognised as an integral part of responsible management and the Institution therefore adopts a comprehensive approach to the management of risk. The features of this process are outlined in the Ba-Phalaborwa Municipality's Risk Management Strategy. It is expected that all departments / sections, operations and processes will be subject to the risk management strategy. It is the intention that these departments / sections will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Effective risk management is imperative to Ba-Phalaborwa Municipality to fulfill its mandate, the service delivery expectations of the public and the performance expectations within the Institution.

The realisation of our strategic plan depends on us being able to take calculated risks in a way that does not jeopardise the direct interests of stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our service delivery environment, as well as take informed decisions under conditions of uncertainty.

We subscribe to the fundamental principles that all resources will be applied economically to ensure:

- The highest standards of service delivery;
- A management system containing the appropriate elements aimed at minimising risks and costs in the interest of all stakeholders;
- Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and
- Maintaining an environment, this promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction. An entity-wide approach to risk management will be adopted by Ba-Phalaborwa Municipality, which means that every key risk Ba-Phalaborwa Municipality will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into Ba-Phalaborwa Municipality's systems and processes, ensuring that our responses to risk remain current and dynamic. All risk management efforts will be focused on supporting Ba-Phalaborwa Municipality's objectives. Equally, they must ensure compliance with relevant legislation, and fulfill the expectations of employees, communities and other stakeholders in terms of corporate governance.

The risk policy statement shall be reviewed annually to reflect the current stance on risk management.

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

## 5. LEGISLATIVE MANDATES

The MFMA required that:

***“The Accounting Officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control”.***

Treasury Regulation 3.2.1 extends the above requirement by putting emphasis on risk assessment, risk management strategy and fraud prevention plan and can be summarized as follows:

- (i) The Municipal Manager must ensure that a risk assessment is conducted regularly to identify emerging risk of the institution.
- (ii) A risk management strategy, which must include a fraud prevention plan, must be used to direct internal audit effort and priority and to determine the skills required of managers and staff to improve controls and to manage these risks.
- (iii) The strategy must be clearly communicated to all officials to ensure that the risk management strategy is incorporated into the language and culture of the institution.

The extension of the general responsibilities, in terms of Section 45 of the MFMA, to all officials is a cornerstone in the institutionalization of risk management in the public service. It establishes accountability for risk management at all levels of organization and does not limit it into the Municipal Manager or Internal Audit Activity.

The King III Report on Corporate Governance emphasises that management is responsible for the implementation of Risk Management. Risk Management should be embedded in the day-to-day activities, be practised throughout an organisation and emphasis on oversight structures

## 6. OBJECTIVES OF ENTERPRISE RISK MANAGEMENT

Risk management is pro-active and systematic, enabling the municipality to achieve its objectives with greater certainty. As a management tool, an integrated risk management framework will assist the municipality in achieving objectives more efficiently. Risk analysis as a management tool also promotes effective and efficient resource utilization.

The objectives of a risk management framework are to:

- Align strategic objectives with supporting processes, risk and control;
- Drive specific risk management and control processes to respond to the potential threats and opportunities;
- Provide a common understanding of how the municipality, its business processes and people, describe and priorities objectives, risk and control;
- Embed instinctive and consistent consideration of risk and reward in the day-to-day planning and achievement of objectives and;
- Provide clarity on the municipality's risk appetite – risks must be taken in the pursuit of opportunities.

## **7. BENEFITS OF ENTERPRISE RISK MANAGEMENT**

- Better quality decisions
- Increased efficiency, effectiveness and economy of operation
- Reduced losses
- Improved level of compliance
- Continuity in business
- Strengthening the value of system
- Proactive not re-active response to performance threats (focus on preventative measures)

## **8. PRINCIPLES OF ENTERPRISE RISK MANAGEMENT**

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

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

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

All risk management activities will be aligned to Ba-Phalaborwa Municipality values and principles, objectives and organizational priorities, and aims to protect and enhance the reputation and standing of the organization.

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

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

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

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

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

We also recognize that some risks can be managed by transferring them to a third party, i.e. insurance, security etc. In the current climate it is rare to effectively / fully transfer risks by contracted arrangements.

## **9. RISK MANAGEMENT RESPONSIBILITIES AND STRUCTURES**

All personnel have a responsibility for maintaining good internal control and managing risk in order to achieve the strategic objectives of the municipality. Collectively, personnel in operational 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 entity, its objectives, the risks it faces and the people we deal with. Everyone should be aware of the risks they are empowered to take, which should be avoided and reported upwards.

The structures through which risk management will be reported are set out below. Detailed guidelines on roles and responsibilities are provided in Annexure A.

### 9.1 Committee responsibilities

No	Activity	Responsibility	Frequency
01	The Risk Management Committee will meet on a quarterly basis.	Committee Chairperson	Quarterly
02	The Risk Management Committee will review risk management progress on a quarterly basis.	Municipal Manager	Quarterly
03	Departmental Management meetings will be held monthly.	Directors	Monthly

### 9.2 Reporting responsibilities

No	Activity	Responsibility	Frequency
04	The Ba-Phalaborwa Municipality Audit Committee will include statements regarding risk management performance in the annual report to stakeholders.	Audit Committee Chairperson	Annually
05	The Risk Management Committee will submit a risk management report to the Audit Committee on a quarterly basis.	Municipal Manager	Quarterly

### 9.3 Risk assessment responsibilities

No	Activity	Responsibility	Frequency
08	The Council will independently review the key risks of the Municipality at least once a year.	Council	Annually

### 9.4 Control responsibilities

No	Activity	Responsibility	Frequency
13	The Chairperson of the Audit Committee will consider Internal Audit and management's report concerning the effectiveness of internal controls at least once a year.	Audit Committee Chairperson	Annually
14	The Risk Management Committee will report to the Audit Committee regarding the performance of internal controls for those risks in the risk registers.	Risk Manager	Quarterly
15	The Directors will report to the Risk Management Committee regarding the performance of internal controls for those risks in the operational risk registers.	Director	Quarterly

## 9.5 Governance responsibilities

No	Activity	Responsibility	Frequency
17	Each key risk will have a risk owner, who will be responsible for the following: <ul style="list-style-type: none"> <li>• Updating the risk information;</li> <li>• Providing assurance regarding the risk's controls;</li> <li>• Co-ordinate the implementation of action plans for the risk;</li> <li>• Reporting on any developments regarding the risk.</li> </ul>	All	Monthly
18	The internal audit function will use the outputs of risk assessments to compile its strategic three year rolling and annual internal audit plan after reviewing the processes followed and the adequacy of the risk register, and will evaluate the effectiveness of internal controls.	Internal Audit	Annually and as scheduled
19	The Internal Audit function will formally review the effectiveness of Ba-Phalaborwa Municipality's risk management processes.	Internal audit	Annually
20	Each risk register will include a review of the risks and controls associated with safety, health, environment and quality responsibilities.	Senior Managers/ MM	As scheduled



## **ANNEXURES**

### **A. Risk Management Guidelines**

#### **A.1 Accountability and responsibility guidelines**

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

###### ***A.1.1.1 The Council, Municipal Manager and Senior Management are accountable for risk management***

The Council charter should outline councilor's responsibilities for the management of risk within Ba-Phalaborwa Municipality. These responsibilities are stated as follows:

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

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

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

The assurance process includes statements regarding the appropriateness of the municipality's risk

Because of the fluid nature of risk in the municipality, it is imperative that risk is confronted in a systematic and structured manner. In our complex environment where there are literally

thousands of technical, process and strategic risks, it is vital that the management of risk is undertaken in a formalized manner. The Council and Municipal Manager should provide stakeholders with the assurance that management has a pre-emptive approach to risk.

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

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

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

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

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

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

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

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

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

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

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

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

***A.1.1.6 The Audit / Risk Committee will monitor the entity's risk management processes***

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

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

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

**A.1.2 Risk management committee**

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

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

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

Functions and responsibilities of the risk management committee include:

- Establishment and monitoring of the implementation of the risk management strategy;
- Ensuring that the responsibilities and co-ordination of risk management are clear;
- Advising the Council and Municipal Manager on urgent risk management issues and required initiatives as part of its quarterly reporting process;
- Overseeing the implementation and maintenance of the ongoing process of risk identification, quantification, analysis and monitoring throughout the Municipality;
- Ensuring that the risk management induction, training and education programs are targeted appropriately for all levels of personnel and that it is established and implemented;
- Reviewing and recommending actions for improvement regarding outstanding actions on risk management plans;
- Evaluating the risk profile of the Municipality as well as for major projects and new ventures, requiring the approval of the Council;
- Reviewing issues for consideration as identified by the Council and Audit / Risk Committee;
- Assist with the development of an integrated approach to financing and managing risk to minimise cost;
- Facilitating the sharing of post loss analysis information and thereby improving prevention and control measures;
- Reviewing the risk assessments on a quarterly basis to take note of the material risks to which the Municipality may be exposed and consider, notes and if necessary, comments on the strategy for managing those risks;
- Considering, notes and if necessary, comments on management responses to significant risks; and
- Keeping abreast of all changes to the risk management and control system and ensures that the risk profile and common understanding is updated, as appropriate.

### **A.1.3 Roles and responsibilities of Management**

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

The Municipal Manager is responsible for appointing a Chief Risk Officer to assist management in discharging its responsibilities.

More specifically Management is responsible for:

- Designing an ERM programme in conjunction with the Chief Risk Officer;

- Deciding on the manner in which risk mitigation will be embedded into management processes;
- Inculcating a culture of risk management in the Municipality;
- Providing risk registers and risk management reports to the Chief Risk Officer pertaining to risk and control;
- Identifying positive aspects of risk that could evolve into potential opportunities for the Municipality;
- Assigning a Manager to every key risk for appropriate mitigating action and to determine an action date;
- Viewing risk as an opportunity by applying the risk / reward principle in all decisions impacting upon the Municipality;
- Utilizing available resources to compile, develop and implement plans, procedures and controls within the framework of the Municipality's ERM Policy to effectively manage the risks within the Municipality;
- Ensuring that adequate and cost effective risk management structures are in place;
- Identifying, evaluating and measuring risks and where possible quantifying and linking each identified risk to key performance measurement indicators;
- Developing and implementing risk management plans including:
  - Actions to optimize a risk / reward profile to maximize reward with risk contained within the Council and Municipal Manager's approved risk tolerance;
  - Implementation of cost effective preventative and contingent control measures; and
  - Implementation of procedures to ensure adherence to legal and regulatory requirements.
- Monitoring of the ERM processes on both a detailed and macro basis by evaluating changes, or potential changes to risk profiles;
- Implementing and maintaining adequate internal controls and monitor their continued effectiveness;
- Implementing those measures as recommended by the internal / external auditors, which, in their opinion, will enhance control at reasonable cost; and
- Reporting to the Audit / Risk Committee on the risk process and resultant risk / reward profiles.

#### **A.1.4 Risk Management Coordinators**

Responsibilities of the Risk Management Coordinators include amongst others:

- The Risk Management Coordinator will assist the Chief Risk Officer with updating of risk reporting information; and

- The Risk Management Coordinators will be the key contact of the Chief Risk Officer at each directorate / department.

#### **A.1.5 Chief Risk Officer**

Focusing on Enterprise-wide Risk Management the CRO is tasked with the overall efficiency of the ERM function. This is inclusive of the embedding of risk management practices and fostering a risk aware culture within the Institution.

The CRO effectively assumes the role of Institutional advocate for ERM and brings specialist expertise to assist in integrating risk management throughout the Institution.

The high level responsibilities of the Chief Risk Officer should include:

- Working with Senior Management to develop the Institution's vision for risk management;
- developing, in consultation with management, the Institution's risk management framework incorporating, inter alia, the:
  - risk management policy;
  - risk management strategy;
  - risk management implementation plan;
  - risk identification and assessment methodology;
  - risk appetite and tolerance; and
  - risk classification.
- communicating the Institution's risk management framework to all stakeholders in the Institution and monitoring its implementation;
- facilitating orientation and training for the Risk Management Committee;
- training all stakeholders in their risk management functions;
- continuously driving risk management to higher levels of maturity;
- assisting Management with risk identification, assessment and development of response strategies;
- monitoring the implementation of the response strategies;
- collating, aggregating, interpreting and analysing the results of risk assessments to extract risk intelligence; reporting risk intelligence to the Accounting Officer / Authority, Management and the Risk Management Committee; and
- participating with Internal Audit, Management and Auditor-General in developing the combined assurance plan for the Institution.

In addition to the above mentioned high level responsibilities, the CRO needs to possess certain attributes to function effectively and efficiently.

## **A.2 Reporting requirements**

### **A.2.1 Internal reporting processes for risk information**

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

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

### **A.2.2 The frequency of risk monitoring**

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

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

### **A.2.4 Incident reports will be generated for unacceptable losses**

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

## **A.3 Risk Assessments**

Once a year, the Municipality will undertake a **thorough reassessment** of its risks at all levels using the following methodology.

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

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

The municipality can also rely on Risk Assessments conducted by professionals (Consultants) hired to assist the institution. The Risk Assessments report by the consultant have to be adopted by the Risk Management Committee.

At a minimum a risk assessment should result in:

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

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

### **A.3.1 Profile the context**

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

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

### **A.3.2 Profile the objectives of the directorates / departments**

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

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

### **A.3.3 Profile the stakeholders of the Municipality**

Stakeholders may include the following:

- Community;
- Councillors;
- Consumers;



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

#### **A.3.4 Profile the Municipality's value creation processes**

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

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

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

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

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

#### **A.3.6 Map the Municipality's strategy**

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

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

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

### **A.3.7 Profile the key processes**

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

- The processes that generate cash must be profiled.
- The drivers of the Municipality's processes and the key features of these processes must be identified and interpreted.
- Incoming actions such as recruitment, purchasing and procurement must be identified.
- Outgoing processes such as public relations, investments and branding should be profiled.
- Inherent and cyclical processes such as budgeting, information systems and staffing matters must be incorporated into the Municipality's risk profile.

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

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

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

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

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

### **A.3.9 Assess the impact of risk across the Municipality**

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

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

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

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

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

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

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

#### **A.3.12 Identify external changes and identify associated risks**

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

#### **A.3.13 Identify the potential root causes of risk events**

Exposures could indicate the potential for risks materialising. Perils or triggers cause actual events. Such triggers or events must be identified and documented. The purpose of identifying

potential root causes is to give direction to risk intervention measures. This process of identifying root causes of events may be left until after the first round of risk assessments has been completed.

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

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

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

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

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

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

Results must be recorded in the relevant risk registers.

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

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

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

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

- Consider how many similar incidents have occurred in the Municipality; and
- Consider, and research if necessary, how many similar incidents have occurred at other district municipalities; and

- Consider the effectiveness of the existing preventative controls for the risk.

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

This is the potential magnitude of the impact on the Municipality's operations should the risk / threat actually occur. This is assessed on the basis that management has no specific / focused controls in place to address the risk / threat (therefore before any controls). The consequences of risk are not only characterized in financial terms. Management must consider the various scales of impact that are relevant according to the prevalent categories of risk. These may include the scales for reputation damage, personal injuries and fatalities, media coverage, and operational impact.

From a strategic viewpoint, management should determine the scale of potential impact upon defined objectives of the strategy. Scales of financial impact are invariably the most common form of risk quantification and must be reflected using the same scales as financial reporting expectations. **Please refer to the attached table to guide your risk calculations (Appendix B).**

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

Inherent risk is the risk to the Municipality in the absence of any actions management might take to alter either the risk's likelihood or impact.

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

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

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

### **A.3.19 Consider perceived control effectiveness**

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

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

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

#### **A.3.20 Calculate residual risk status**

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

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

#### **A.4 Control requirements**

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

The following aspects of the control environment should be considered:

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

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

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

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

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

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

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

The robustness of the strategy in the context of the risk assessment findings must be evaluated. Likely strategic responses to risk and their performance are aspects that must be fully

understood. This process may require separate processes of scenario planning around strategic intent.

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

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

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

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

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

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

#### **A.4.5 Verify the levels of compliance with regulatory requirements**

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

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

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

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

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

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

Possible prohibited risk areas include the following:

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

Any of the above would constitute an unacceptable risk.

#### **A.4.7 Document your action plans for risk mitigation**

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

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

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

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

#### **A.5 Governance requirements**



#### **A.5.1 Establish an organizational framework of assurance for key risks and controls**

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

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

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

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

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

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

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

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

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

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

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

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

#### **A.5.6 Operational, Health and Safety Management**

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

#### **A.6 Common Language**

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

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

See **Appendix C** for terminology.

### **B. RATING TABLES**

**Impact-** the following table is to be used to assist management in quantifying the potential impact that a risk exposure may have on the municipality

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

**Likelihood-** the table below is to be used to assist management in quantifying the probability of a specific risk occurring.

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

#### Perceived control effectiveness-

Rating	Effectiveness category	Category definition
20%	Very good	Risk exposure is effectively controlled and managed
40%	Good	Majority of risk exposure is effectively controlled and managed
65%	Satisfactory	There is room for some improvement
80%	Weak	Some of the risk exposure appears to be controlled, but there are major deficiencies
90%	Unsatisfactory	Control measures are ineffective

#### Risk Tolerance

Risk tolerance is based on the municipality's financial strength and its ability to withstand shocks. The risk tolerance of the organization is as follows:

Quantitative Indicator	Qualitative Indicator	Response option
20 – 25	Maximum risk	The risk should be avoided or action should be taken to mitigate the risk to an acceptable level or
16 – 20	High risk	The risk should be exploited and/or mitigated
12 – 16	Medium risk	Action should be taken to reduce risk, and kept on the register for senior management monitoring
8 – 12	Low risk	Acceptable risk but continue to monitor
1 – 7	Minimum risk	No action should be taken or remove from the register

#### C. TERMINOLOGY

##### Terminology

Terminology	Definition of terminology
<b>Risk</b>	Risks are uncertain future events (threats and opportunities) that could influence the achievement of the goals and objectives of the Municipality.
<b>Risk Management</b>	A continuous, proactive and systematic process of the identification, evaluation and addressing of risks on a continuous basis to provide reasonable assurance regarding the

	achievement of the institutions goals and objectives.
<b>Risk Assessment</b>	<p>The overall process of identifying, analysing and evaluating risk.</p> <p>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.</p>
<b>Enterprise Risk Management (ERM)</b>	<p>Enterprise risk management is a structured and consistent approach across the Municipality that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks (threats and opportunities) that the Municipality faces to create stakeholder value</p> <p>or</p> <p>Choices made under conditions of uncertainty, bound by acceptable levels of risk, designed to sustain / maximize stakeholder value.</p>
<b>Risk appetite</b>	The amount of residual risk that management is willing to take.
<b>Risk tolerance</b>	The level of risk that management is capable of bearing.
<b>Inherent risk</b>	<p>The likelihood and impact of the risk in the absence of management control or interventions (existing controls)</p> <p>The consequence of the risk to the institution in its unmanaged state.</p>
<b>Residual Risk</b>	The level of risk remaining after the mitigating influence of the existing control has been considered.
<b>Risk Mitigation</b>	The process of selecting and implementing measures to modify risk (encompasses risk avoidance, risk reduction, risk retention and risk transfer).
<b>Risk Categories</b>	Grouping of risks with similar characteristics used in establishing the clients risk portfolio (see risk profile). Ultimately determined by

	the client, the characteristics used to define risk categories typically reflect the client's business model, industry or other factor that drives risk within the organization.
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## D. RISK MANAGEMENT IMPLEMENTATION PLAN

### RISK MANAGEMENT IMPLEMENTATION PLAN

#### Purpose of this document

This document sets out the annual risk management implementation plan for Ba-Phalaborwa Municipality.

#### Objective

The risk management implementation plan for the Institution was prepared to give effect to the implementation of the risk management policy and strategy and sets out all risk management activities planned for the 2016/17 fiscal year.

#### Approach

The development of the risk management implementation plan has taken into consideration:

- the risk management policy;
- the risk management strategy;
- available resources;
- urgency, quick wins and sustainability.



	Due date and responsible official	Outputs / Outcomes	Actual Performance	Challenges/ Remarks
<b>Risk planning</b>				
Detailed risk management implementation plan	Risk Manager 30/06/2022	An approved risk management implementation plan for the next fiscal year		
<b>Risk orientation</b>				
Risk management policy	Risk Manager 30/06/2022	Approved risk management policy		
Risk management strategy	Risk Manager 30/06/2022	Approved risk management strategy		
Authorities, structures and responsibilities	Accounting Officer 30/06/2022	Additional structures created as required Appointment into approved positions and structures		
Terms of reference for the audit committee	Risk Manager 30/06/2022	Updated and approved audit committee charter to include risk management responsibilities		

Terms of reference for the risk management committee	Risk Manager 30/06/2022	Approved risk management committee charter	
Coaching and training	Risk Manager Quarterly	Completed orientation for all key role players (audit committee, risk management committee, risk champions etc) Orientation risk awareness programme developed for new employees Training plan for existing employees	
<b>Risk assessment</b>			
Development of a risk assessment protocol inclusive of risk quantification and risk ranking	Risk Manager Annually	Annual review of assessment methodologies	
Annual strategic risk assessment	Accounting Officer 30/06/2022	Approved strategic risk register	
Operational risk assessments	Each operational manager 30/06/2022	Approved operational risk registers (as per the agreed cycle)	
<b>Risk response</b>			
Drafting of action plans for all gaps identified for the top risks	Risk Manager 30/06/2022	Action plans implemented per agreed milestone	



Drafting of individual key risk indicators for the top risks	Risk Manager 30/06/2022	Analysis report of key risk indicators per agreed frequency	
<b>Risk monitoring</b>			
Assign assurance providers for the top identified risks (IA ,AC and AG)	Accounting Officer Continuous	Combined assurance plan	
Municipal Council report	Risk Management Committee Chairperson Quarterly	Report produced as per agreed frequency and content	
Audit committee report	Risk Management Committee Chair Quarterly	Report produced as per agreed frequency and content	
Annual report disclosure	Accounting Officer Annually	Disclosure in annual financial report	
Risk management committee report	Risk Manager Quarterly	Report produced as per agreed frequency and content	

The detailed risk management implementation plan is included below.

  
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Municipal Manager

Council Resolution: 200/22

Council Resolution Date: 26/05/2022

