



RISK MANAGEMENT STRATEGY & PLAN

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1. INTRODUCTION

Risk Management is an area that is constantly changing to fit in line with the changes of the business environment. Traditionally, the focus of Risk Management has always been on the managing of the financial risks in organisations. This is no longer a case; the approach has broadened to going beyond financial Risk Management. The Municipality, recognising the importance of Risk Management established the Risk Management function focussing on Risk Management, compliance, ethics, fraud and anti-corruption and Business Continuity.

2. PURPOSE OF THE RISK MANAGEMENT STRATEGY

The Risk Management Strategy provides strategic direction of the Municipal Risk Management function in response and support of the Municipal holistic imperatives. It seeks to ensure that Risk Management promotes and add value in achieving the Municipal goals including financial management.

3. BASIS OF THE STRATEGY

The strategy is designed in response to the Municipal assessment of maturity levels and the current situation as well as the expectations of the Risk Management function under normal good-governance expectations.

4. LEGISLATIVE CONTEXT

Section 62(1)(d) of the Municipal Finance Management (MFMA) provides that the Accounting Officer must take all reasonable steps to ensure that unauthorized, irregular, fruitless and wasteful expenditure or other losses are prevented.

5. OVERVIEW OF RISK MANAGEMENT WITHIN THE MUNICIPALITY

5.1 MATURITY

On average (over a 3-year period i.e. 2018/19, 2019/20 & 2020/21), Municipality's maturity rating has not changed significantly. The Municipality has maintained the overall maturity rating of between 2,5 to 3; at these rates it means that the institution-wide risk assessments have been completed and the necessary institutional capacity and structures to support risk management are in place. Risk management processes,



practices and systems satisfy all legislative requirements at this stage but have limited influence on the control environment.

5.2 ROADMAP TO MATURITY

The Enterprise Risk Management Unit is responsible for the coordination of Risk Management activities in the Municipality and it is accountable to the Accounting Officer. For Risk Management to be fully implemented and effective the key success factors which influence the risk culture need to be met as follows:

No.	Key success factor	Considerations
1.	Tone at the top	Management commitment and Accountability linked to Performance Agreements Risk
2.	Governance of Risk Management/ Accountability	Effective Risk Management Policies, Committees (RMC & AC) and Reporting
3.	Risk Function Capacity	Risk Structure, Skills and Capacity
4.	Risk Management Methodology	Risk Management Frameworks and Plans; Risk Assessment Systems and Processes
5.	Good Communication and Training	Management and employee awareness, training and development and workshops
6.	Organizational Integration	Incorporation of risk practices into policies, strategies, plans, processes and procedures for day-to-day implementation. Risk Management influencing the Control Environment

External risk factors are outside the control of the Municipality. Nevertheless Management will ensure that measures are in place to mitigate the associated risks as they could have an undesirable impact on the Municipal plans and strategies. With regards to the internal environment of the Municipality, the following will have to take place:

- Consistent and strict implementation of plans to improve the financial situation of the Municipality.



- Policies and processes must regularly be reviewed to include corrective actions for non-compliance and that implementation thereof is monitored regularly.
- Implementation of the approved Ethics Management Strategy through an Implementation plan.
- Ensure compliance management is strengthened within the institution.
- Identification of risk mitigating plans that are feasible for implementation within a financial year.

6. STRATEGIC OVERVIEW

6.1 RISK MANAGEMENT OBJECTIVES

The Municipal Manager is responsible for ensuring that there is a sound system of Risk Management and control in place to:

- Ensure Compliance with the Municipal Finance Management Act and its accompanying Treasury Regulations.
- Safeguard the company's assets and investments.
- Support achievement of strategic objectives.
- Behave responsibly towards all stakeholders.
- Ensure service delivery to all stakeholders.

Effective Risk Management is therefore a key tool to ensure that MCLM achieves its objectives. What is implicit in the objectives is that:

- Risk Management does not just focus on managing downside risk. It is there to assist in identifying opportunities and to ensure that the risks involved in these opportunities are appropriately managed.
- The implementation of internal controls needs to carefully consider the benefits and costs i.e. the cost of control should not exceed the potential loss should the risk occur.

Risk Management has been defined as “a continuous, proactive and systematic process, affected by MCLM’s Council, Executive Mayor, Municipal Manager, senior management and other personnel, applied in strategic planning and



across the company, 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 its strategic objectives.”

7. BENEFITS OF RISK MANAGEMENT

The Risk Management process is being implemented by MCLM as it will assist with the achievement of objectives. The benefits of Risk Management are:

- ***Organisational alignment:*** The Risk Management process is designed to compliment effective strategic and operational planning. However, as the Risk Management approach is objective driven it will assist in ensuring that management and staff understand and are committed to the key objectives which have been defined. This will include an understanding of the key performance indicators (KPIs) against which our success is measured.
- ***Improved ability to manage risks:*** By formally identifying and evaluating risks we will improve our understanding of the risks which need to be managed. Furthermore, we will analyse and understand the causes of risks to ensure our internal controls manage these causes.
- ***Improved ability to achieve objectives:*** By proactively identifying risks a company will have a better understanding of risks and be more anticipatory and therefore able to achieve its objectives with greater certainty.
- ***Improved ability to seize opportunities:*** By understanding our risk profiles, the Risk Management process will enable us to seize and execute new opportunities successfully.
- ***Cost Effective Internal Controls:*** The Risk Management process will ensure that our system of internal control is cost effective. Areas of over control should be identified and removed.
- ***Sustainability:*** The Risk Management process is a means to educate all our management and staff on their responsibility for Risk Management and the effective application of internal controls. Risk Management will be embedded at all levels within Merafong City Local Municipality.



8. RISK MANAGEMENT PROCESS

In implementing our Risk Management strategy, we undertake the following:

6.1. Identify and describe the risk

The first step in identifying risks will be to consider the objectives to be achieved. The objectives concerned would be the function of each programme and the level of management involved. By formulating the objectives first, this will provide a reference framework for identifying what can go wrong – identifying the risks/threats to the objectives. Additionally, it will also be important to remember that risks are associated with specific actions/tasks which are normally performed in a logical sequence in order to achieve the stated objectives. So, a proper understanding of what is happening – a logical flow of activities or tasks would assist in identifying risks, i.e. what can go wrong. The end product here would be a detailed list of all risks.

6.2. Measure the risks identified

After identifying and describing the relevant risks, the risks would be measured in order to determine priorities in respect of controlling them. The measurement of these risks would largely be subjective in nature, relying on rough estimates and judgement. As a result, the term assessment will often be preferred and used as opposed to measurement. The end product here would be a prioritized list of risks.

6.3. Consider Risk Management alternatives and select the apparent best alternative

This step in essence, requires decision making with regard to how to deal with the identified risks and their possible consequences. The decision making will take into account the priorities set by the risk measurement exercise. Resources will be directed at the high priority risks first. The Risk Management techniques relevant to the individual risks identified, decisions with regard to which techniques to implement would be decided in this step. This will principally involve a cost-benefit analysis. The cost of implementing a technique would be weighed against the



potential loss if the particular technique is not implemented. The end product here would be a Risk Management report.

6.4. Implementation of chosen Risk Management techniques

After treatment approaches have been chosen for the prioritized risks and specific techniques are to be applied, then the implementation of these Risk Management techniques would require a combination of technical decisions and management decisions. The suggested key steps of the implementation process will include:

- Drawing up specifications or specifying what is required
- Determining who should be involved in the implementation process and specifying tasks
- Drawing up financial and time budgets
- Obtaining approvals as required by regulation or policy
- Preparing facilities for implementation as required
- Preparing personnel for implementation as required
- Integrating into existing organizational structure and operations as appropriate
- Following-up immediately after implementation

Depending on the nature of the Risk Management techniques being implemented, the aforementioned stages will display unique characteristics that will affect application. The end product of this step would be an implementation plan.

6.5. Continuous Monitoring

In this step all managers in the Municipality will monitor and compare actual results to expectation on a regular basis. Expectations would directly relate to the risk being managed and therefore the objectives the Municipality planned to achieve. Comparing actual results to the expectation will facilitate the decisions in improving controls to achieve Municipality's objectives.



9. RISK MANAGEMENT REPORTING

The reporting of the Risk Management process should be through current reporting lines. The reporting process will be subject to change as our requirements and Risk Management practices evolve. Basic protocols have been set out below.

Risk information that must be reported includes:

- Key risks – including the impact and likelihood pre-control, controls in place to manage the risk and residual risk post control consideration.
- Any material changes to the risk profile.
- Summaries of significant control breakdowns/ losses.
- Breaches of controls or legal requirements
- The results of assurance work to date.

Escalation procedures should be in place to ensure that appropriate material risk issues are reported timeously to the appropriate person.

The Risk Management process as documented above is being applied to strategic and operational risks as well as to new ventures, initiatives and / or projects.

However, the Municipal Manager recognises that there also needs to be a sound system of Risk Management and internal control in place at a process level. Management is accountable, as above, for ensuring that this is achieved.

10. IMPLEMENTATION OF THE STRATEGY

An annual Enterprise Risk Management Plan will be included to give effect to the Strategy in terms of implementation.

11. REVIEW OF STRATEGY

This strategy shall be reviewed on a three - year basis or in case there are reforms in the risk management space necessitating a review. This will be in order to reflect the current approach in the implementation of Risk Management within the municipality.