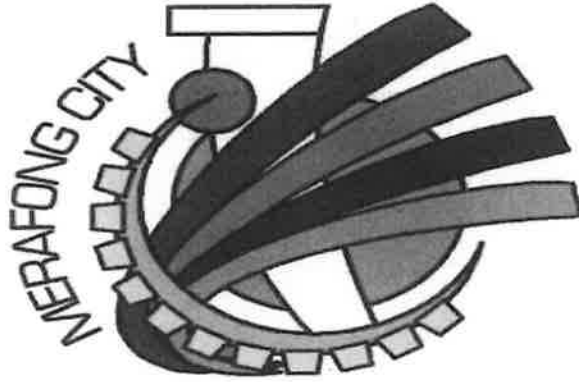


## **RISK MANAGEMENT STRATEGY**

**Tipoff Anonymous Merafong Fraud Hotline  
Tel: 080 1111 633 SMS 49017 email: [gpethics@behonest.co.z](mailto:gpethics@behonest.co.z)**



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## TABLE OF CONTENTS

1.	Introduction.....	3
2.	Purpose of the Risk Management Strategy .....	3
3.	Basis of the Strategy .....	3
4.	Legislative Context .....	3
5.	Overview of Risk Management within the Municipality .....	3
5.1	Maturity.....	3
5.2	Roadmap to Maturity .....	4
6.	Strategic Overview .....	5
6.1	Risk Management Objectives .....	5
7.	Benefits of Risk Management.....	6
8.	Risk Management Process.....	7
8.1.	Identify and describe the risk.....	7
8.2.	Measure the risks identified.....	7
8.3.	Consider Risk Management alternatives and select the apparent best alternative .....	8
8.4.	Implementation of chosen Risk Management techniques .....	8
8.4	Continuous Monitoring.....	9
9.	Risk Management Reporting .....	9
10.	Implementation of the Strategy.....	10
11.	Review of Strategy .....	10
12.	Approval and Adoption .....	10



## **1. Introduction**

Risk Management is an area that is constantly changing to fit in line with the changes in 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 the case; the approach has been broadened to go beyond Financial Risk Management. Merafong City Local Municipality (MCLM or 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 Municipality's holistic imperatives. It seeks to ensure that Risk Management promotes and adds value in achieving the Municipality's goals, including financial management.

## **3. Basis of the Strategy**

The strategy is designed in response to the Municipality's assessment of risk 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 unauthorised, irregular, fruitless and wasteful expenditure or other losses are prevented.

## **5. Overview of Risk Management within the Municipality**

### **5.1 Maturity**

The municipality scored 2.6 on the National Treasury maturity assessment survey which is undertaken annually for the financial year 2022/23. There was no improvement compared to the previous financial year. 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.	Organisational 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 Municipality's plans and strategies. With regard 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 Municipality.
- 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 MFMA and Treasury Regulations;
- safeguard the Municipality's assets and investments;
- support the achievement of strategic objectives;
- behave responsibly towards all stakeholders; and
- 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 achieving that 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, effected by MCLM's Council, Executive Mayor, Municipal Manager, senior 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 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 identified and defined. This will include an understanding of the key performance indicators 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, the Municipality 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 individual and collective responsibility for Risk Management and the effective application of internal controls. Risk Management will be embedded at all levels within MCLM.



## **8. Risk Management Process**

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

### ***8.1. 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.

### ***8.2. 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 (mitigating) 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 prioritised list of risks.



### **8.3. 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 that particular technique is not implemented. The end-product here would be a Risk Management report.

### **8.4. Implementation of chosen Risk Management techniques**

Once treatment approaches have been chosen for the prioritised risks and specific techniques to be applied, 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;  
and
- 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. Each identified risk will be dealt with on its own matrix following the above suggested key steps. The end-product of this step would be the implementation plan.

#### **8.4 Continuous Monitoring**

In this step, all managers in the Municipality will monitor and compare actual results to their expectations on a regular basis. Expectations would directly relate to the risk being managed (mitigated) and therefore the objectives that the Municipality plans to achieve. Comparing actual results to the expectations will facilitate the decisions in improving controls to achieve the 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, (inherent risks) 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; and
- 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 persons.

The Risk Management process as documented above are to be 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 controls in place at a process level. Management is accountable, as above, for ensuring that this is achieved.

#### **10. Implementation of the Strategy**

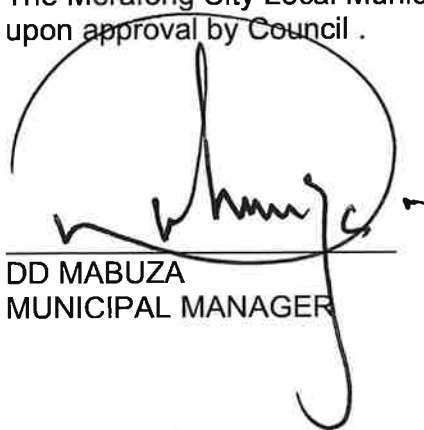
An annual Enterprise Risk Management Plan will be included to give effect to the strategy in terms of implementation.

#### **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.

#### **12. Approval and Adoption**

The Merafong City Local Municipality Risk Management Framework comes into effect upon approval by Council .



DD MABUZA  
MUNICIPAL MANAGER

Date 14/08/2025