

# uMgungundlovu District Municipality



## Risk Management Strategy

2023/2024 Financial Year

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## **1. STRATEGY INTENT**

The aim of risk management strategy is to ensure that the uMgungundlovu District Municipality makes informed decisions with regard to the activities that it undertakes by appropriately considering both risks and opportunities.

This strategy outlines the outcomes and compliance obligations regarding the Risk Management for all employees.

## **2. PURPOSE OF THE STRATEGY**

The main purpose of this framework is to assist the Executives and Management in the effective implementation of risk management principles in identification, assessment, evaluation, analysis and control of risks that may hinder achievement of the Municipality's goals, its corporate governance, and service delivery.

It is therefore essential that risk management is integrated into Municipality's daily operations and processes for effective, efficient and economical delivery of the Municipality's mandate. All Municipal employees should therefore view risk management as an inter-linking tool to support the achievement of Municipal objectives.

One of the most important mandates is the development and implementation of an integrated risk management strategy whose major objective is to encourage best practice within an evolving government service delivery strategy, while minimising the risks and ensuring that Municipality meets its objectives outlined in the Integrated Development Plan.

## **3. OBJECTIVES AND BENEFITS**

The objectives of Risk Management Strategy are as follows:

- ❖ Implementation of purposeful and systematic risk identification, risk assessment, risk evaluation and risk mitigation management strategies to ensure the achievement of the Municipality's goals and objectives.

- ❖ The determination of risk mitigation strategies and controls to reduce risk exposure and improve the management of significant and Municipal wide risks.
- ❖ Regular risk assessment, evaluation, and prioritisation of risks with a view to ensure optimal risk management and related results.
- ❖ To provide management with proven risk management tools that support their decisionmaking responsibilities and processes and managing key risks (threats and opportunities) impacting on their goals and objectives.
- ❖ Ensure that all employees have an understanding of risk, and the Municipality adopts a uniform approach for the identification and prioritisation of risks.
- ❖ To ensure that risk management processes exist in an environment of continuous feedback and improvement.
- ❖ Embedding risk management processes within the strategic and operational activities of the Municipality.
- ❖ To provide and maintain a working environment where everyone is following sound risk management practices and is held accountable for achieving results.
- ❖ To provide with the framework on which the employees will utilise to implement risk management.
- ❖ To provide facilities and create a conducive working environment in ensuring that everyone has the capacity and resources to carry out his or her risk management responsibilities;
- ❖ To ensure that risk management activities are fully integrated into the planning, monitoring and reporting processes and into the daily management of program activities.

### **The Benefits of the Strategy:**

Among others, the following are the benefits of Risk Management processes:

- ❖ Reduction of losses;
- ❖ Prevention of fraud and corruption;
- ❖ Value for money through more efficient use of resources; and
- ❖ Enhanced outputs and outcomes through improved project and programme management.

The Risk Management Strategy facilitates the following benefits in relation to the Municipality's risk management process:

- ❖ Pro-active identification and management of risks arising from strategic and operational business activities, including projects, programs and contracts municipal-wide;
- ❖ Analysis, prioritization and evaluation of these risks to ensure adequate and efficient resource allocation in order to manage the risk exposures to an acceptable level.
- ❖ Pro-actively determining and implementing mitigating actions and strategies in order to control and reduce the risk exposures, and to continually improve Municipality's management of internal controls and processes.
- ❖ To maintain on-going monitoring and reporting on risks status.

#### **4. ENTERPRISE RISK MANAGEMENT**

The underlying premise of enterprise risk management is that every organisation within the public sector exists to provide service delivery. All organisations face uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build stakeholder value.

Enterprise risk management is an ongoing systematic process, effected by Council, Municipal Manger, Executive Management and other personnel, applied in strategy setting and across the Municipality designed to identify potential events that may affect Municipality's Mission and Vision on service delivery, and manage risk to be within the risk appetite and risk tolerance, in order to provide reasonable assurance regarding the achievement of Municipal goals, strategic objectives, and Implementation Plans.

##### **Components of Enterprise Risk Management –**

Enterprise risk management consists of eight interrelated components. These are integrated with the management processes. The Municipality's Risk Management Strategy is premised on the COSO Enterprise Risk Management Integrated Framework, which consists of eight interrelated components.

**These components are:**

- ❖ **Internal Environment** – The internal environment encompasses the ‘tone at the top’ and sets the basis for how risk is viewed and addressed by Municipality’s Executives and Management. This includes risk management philosophy and risk appetite, integrity and ethical values, and the environment in which they operate.
- ❖ **Objective Setting** – Objectives must exist before management can identify potential risks affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the objectives support and align with mission and vision of the Municipality and are consistent with its risk appetite.
- ❖ **Event Identification** – Internal and external events affecting achievement of objectives must be identified, distinguishing between risks and opportunities. Opportunities are channelled back to management’s strategy or objective-setting processes.
- ❖ **Risk Assessment** – Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.
- ❖ **Risk Response** – Management selects risk responses (avoiding, accepting, reducing, or sharing risk) – developing a set of actions to align risks with the MLM’s risk tolerances and risk appetite.
- ❖ **Control Activities** – Policies and procedures established and implemented to help ensure the risk responses are effectively carried out.
- ❖ **Information and Communication** – Relevant information is identified, captured, and communicated in a form and timeframe that enable the Executives, Management and employees to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across, and up the Organisational structure.
- ❖ **Monitoring** – The entirety of enterprise risk management is monitored, and modifications made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.

## 5. RISK ASSESSMENT

Risk assessment allows the Municipality to consider how potential risks might affect the achievement of objectives. Management assesses events from two perspectives: likelihood and impact. Likelihood represents the possibility that a given event will occur, while impact represents the effect should it occur.

The following tables reflect the rating criteria that is utilised by the municipality during risk assessment and evaluation.

### Impact (Effect on the Municipality's objectives and goals should risk occur)

Impact factor	Rating	Description
Catastrophic	100	Most if not all business objectives are impacted
Critical	70	Majority of business objectives/operations are impacted
Significant	50	Some important business objectives are impacted
Minor	30	Loss of an asset with minor impact on operations
Insignificant	10	No impact on business or core systems

### Likelihood (Probability that a given effect in the form of risk may/will occur)

Likelihood factor	Probability Rating	Description
Almost certain	90	The risk is almost certain to occur in the current circumstances / risk is already occurring or is likely to occur more than once within the next 12 months.
Likely	65	The risk could easily occur or is likely to occur at least once within the next 12 months.
Possible	40	Risk could occur quite often. There is an above average chance that the risk will occur at least once in the next 3 years.
Unlikely	20	The risk occurs infrequently and is unlikely to occur within the next 3 years.
Rare	10	Not expected to happen. The risk is conceivable but is only likely to occur in extreme circumstances.

### Inherent risk (impact x likelihood)

Risk level before any controls is put in place to mitigate the risks

Inherent Risk	Rating
Extreme	<sup>3</sup> 50
High	<sup>3</sup> 35 < 50
Moderate	<sup>3</sup> 25 < 35
Low	<sup>3</sup> 15 < 25
Insignificant	< 15

### Control Effectiveness

Description	Definition
Very Good	Controls in place and working at optimum level
Good	Controls in place addresses risks, but not working at optimum level
Satisfactory	The controls in place are working at an acceptable level, but more can be done to strengthen these controls.
Weak	Controls in place need to be strengthened or new controls need to be implemented
Unsatisfactory	Controls ineffective, and new controls needs to be implemented

### Residual risk

Residual risk	Risk acceptability	Action
Priority 1	Unacceptable	Take action to reduce risk with highest priority.
Priority 2	Unacceptable	Take action to reduce risk with highest priority.
Priority 3	Unacceptable	Take action to reduce risk
Priority 4	Acceptable	No risk reduction – Control, Monitor and report
Priority 5	Acceptable	No risk reduction – Control, Monitor and report



## **6. RISK IDENTIFICATION AND PRIORTISATION**

An event is an incident or occurrence emanating from internal or external sources that affects implementation of strategy or achievement of the Municipality's objectives. Events may have positive or negative impact, or both.

Risk identification process guides management in prioritising and channelling the resources in managing the key risks to an acceptable level. The risks are prioritised depending on their inherent and residual risk exposure, where these can be classified as extreme, high, medium or low.

Event and risk identification involves a purposeful and systematic process to identify significant and emerging potential risks and opportunities linking to the achievement of the Municipality's goals and objectives. Risk identification process covers all risks affecting the Municipality either internally or externally.

The Municipality has adopted risk workshops as suitable risk identification techniques for its environment. The process is supplemented by the review and consideration of:

- ❖ External and internal audit reports.
- ❖ Internal and external environment.
- ❖ Financial analyses; • Historical incidents / past events; and
- ❖ Actual losses.
- ❖ key performance indicators.
- ❖ Municipality's Risk Universe; and
- ❖ Best practices.

## **7. RISK EVALUATION AND ASSESSMENT**

The Municipality's Risk Management policy stipulates that risk assessments should be conducted annually. The responsibility to ensure that periodic risk assessments are conducted within the Municipality rests with the Municipal Manager, the Executives and Management, who assist in creating an enabling environment.

Risk evaluation and assessment is a systematic process to quantify or qualify the level of risk associated with a specific threat or event, to enrich the risk intelligence available to the

Municipality. The main purpose of risk assessment is to assist management to prioritise the key risks.

Risk assessment is performed through facilitated risk workshops. Annual risk assessment requires review of risk management tool (register) identification of risks and emerging risks, and analysis of residual exposures based on likelihood of its occurrence and the associated risk impact (nature and extent).

Risks are assessed on the basis of the likelihood and the impact of its occurrence in the following stages.

- ❖ The inherent risk is assessed to establish the level of exposure in the absence of management strategies and controls to influence the risk;
- ❖ Residual risk assessment follows to determine the actual remaining level of risk after management strategies and controls are put in place to influence the exposure; and
- ❖ Aggregated residual risk is benchmarked against Municipality's risk appetite and tolerance to determine the need for further management intervention, if any.

### Overview of Risk evaluation



## 8. RISK APPETITE

Risk Appetite is the amount of risk that is accepted in pursuit of achieving objectives. The uMgungundlovu District Municipality has adopted a quantitative approach in determining risk appetite, reflecting and balancing goals for growth, return and risk.

Risk appetite is directly related to strategy. It is considered in strategy setting, where the desired return from strategy should be aligned with the risk appetite.

Defining a risk as acceptable does not imply that the risk is insignificant.

The assessment should take into account the degree of control over each risk, the cost impact, benefits and opportunities presented by the risk and the importance of the policy, project, function or activity.

***Risk appetite is defined as the extent of willingness to take risks in the pursuit of the business objectives.***

Management considers its risk appetite as it aligns its resources and designs infrastructure necessary to effectively respond to and monitor risks.

Risk appetite:

- ❖ Enables an improved consistency of decision making at all levels through improving risk understanding.
- ❖ Provides a framework for knowingly taking risk within defined boundaries;
- ❖ Improves the ability of the Audit & Risk Committee to challenge recommendations of management by providing a benchmark of what level of risk is defined as acceptable; and
- ❖ Derives real value from the assessment of risk over and above compliance purposes.

The formulation of the risk appetite is typically closely aligned to the strategic planning process and is also inclusive of budgeting, and as such is something that should be reviewed by management annually.

The audit and risk committees reviews the strategic business plan of the municipality and approves the operating objectives as being achievable, within the context of the level of risk acceptable to the municipality.

The Municipality's risk appetite then represents the amount of risk the district municipality is willing to accept as it seeks to achieve its business objectives. Risk appetite is communicated through the strategic and implementation plans at both organisational and operational levels. The Audit, Performance and Risk Committee and management will monitor the risk appetite of actual results and communicate any actions required as a result..

## **9. RISK TOLERANCE**

The uMgungundlovu District Municipality risk tolerance can be defined by reference to the following components.

### **❖ Acceptable risks:**

All personnel should be willing and able to take calculated risks to achieve their own objectives and to benefit the municipality. The associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.

### **❖ Prohibited Risks**

Policies and guidelines and other control procedures are mandatory and must be complied with MFMA. Full compliance with these standards is required and confirmation of compliance will be sought in the MLM's annual report. Non-compliance with constitutes an unacceptable risk.

## **10. RISK ASSESSMENT APPROACH**

### **❖ STRATEGIC RISK ASSESSMENT PROCESS**

The approach for strategic risk assessments is top-down, where strategic top risks for the Municipality are cascaded down to departmental and entities' strategic risk profiles. This enables the integration of the strategic risk assessment process to Municipality's annual strategic planning and budget planning cycles.

Executives and Management is required to develop and implement mitigating actions in order to manage risk exposures to an acceptable level. Continuous monitoring on the process on implementation of action plans should be assessed and reported on a quarterly basis to executives and management via relevant committees within the Municipality.

The strategic risk assessment processes within the Municipality incorporates the following:

- ❖ The identification, evaluation and assessment of the Municipal Wide Top Strategic Risks;
- ❖ which may impact the achievement of the Municipality's Integrated Development Plan (IDP);
- ❖ The identification, evaluation and assessment of strategic risks of the Municipality's
- ❖ Establishment of risk profiles at departmental and entity levels.

#### ❖ **OPERATIONAL RISK ASSESSMENT PROCESS**

Operational risk assessment processes are conducted at all business units/ directorates within the Municipality, at departmental and entity levels. The process interlinks the identified departmental and entity strategic risks to business units/directorates.

Management is required to develop and implement mitigating actions in order to manage risk exposures to acceptable level. Continuous monitoring on the process of implementation of action plans should be assessed and reported on quarterly basis to Executives and Management.

## **11. RISK RESPONSE AND MITIGATION**

Risk response is concerned with developing strategies to reduce and manage risk exposures. A proactive approach is generally adopted by determining mitigation actions / plans against risks identified. The Municipality endeavours to optimally control and manage potential threats and related risk exposures in such a manner that the exposures are reduced to an acceptable level, which is below risk appetite and tolerance levels / thresholds and to ensure that those threats or risk exposures do not materialise.

The Municipality has adopted the following risk response strategies;



In evaluating response options, Management should consider that a response might affect the likelihood and impact of risks differently. The Municipality is responsible for choosing a suitable strategy for dealing with key risks.

The decision on the nature and extent of risk mitigation controls is informed by the nature of the risk, the risk rating viz. extreme, high, medium or low; and the associated cost benefits.

Considering the relative costs and benefits of alternative risk response options. Cost and benefit measurements for implementing risk responses are made with varying levels of precision. All direct costs associated with instituting a response, and indirect costs practically measurable, should be considered. The Executives and Management should consider the opportunity costs associated with use of resources in responding to those identified risk exposures.

## 12. RISK MONITORING

The risk management committee must monitor the handling of key risks by program managers as in line with the charter. Key performance indicators must therefore be developed by the committee to facilitate the monitoring of each key risk.

### 13. RISK REPORTING

The success of risk management depends on the availability of reliable information and effective communication at various levels. Pertinent information should be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities.

Information is needed at all levels to identify, assess and respond to risks. Management must process and refine large volumes of data into relevant and actionable information.

Risk information is to be maintained on a risk register. The register will be maintained by the Risk Management unit and the risk owners. Management is responsible for ensuring that the register is complete, relevant and accurate.

For each risk the following minimum information is to be maintained:

- ❖ Department/ unit risk relates.
- ❖ Strategic objective/s aligned to risk;
- ❖ Risk Description.
- ❖ Risk factor/ Root Cause;
- ❖ Consequences of risks/ Impact
- ❖ Inherent risk rating;
- ❖ Current Controls;
- ❖ Residual risk rating;
- ❖ Action to improve management of the risk;
- ❖ Target date; and
- ❖ Risk Owner.

For monitoring the following information should be provided on a quarterly basis;

- ❖ Progress on the implementation of the action plan;
- ❖ Status; and
- ❖ Reasons for not reaching the target date.

The reporting lines shall be as follows:

- The risk management unit will shall submit reports on the status of the implementation of risk management, and risk assessment reports on a quarterly basis to the Risk Management Committee.
- The Chairperson of the Risk Management Committee shall report on a quarterly basis to council the extent of implementation of risk management.
- The municipal manager shall report to the municipal council on the extent of implementation of risk management in the municipality.
- The risk owners report progress on action plans to address risks identified to the risk management unit for the purpose of assessment.

#### **14. DISCLOSURE**

In order for risk management to work, it must be embedded into everyday activities of the district municipality and should be integrated into the reporting process. Risk management should be part of every decision that is made, every objective that is set and every process that is designed.

#### **15. INTERGRATING 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 business units with the municipality.

#### **16. BUSINESS CONTINUITY**

Business continuity is an integral part of risk management. In the event of extended service outages caused by factors beyond the municipality's control, the municipality must be able to restore services to the widest extent possible in a minimum time frame.

A Business Continuity Framework relating to information and communication technology component is in place to direct business continuity activities. ICT steering committee has been to oversee the execution of those activities.



## **17. CONCLUSION**

Risk Management is a powerful management tool to deal with uncertainties in the environment, and to establish preventative mechanism to enhance service delivery, while narrowing the scope of corruption, misconduct and unethical professional behaviour.

It is also an effective decision-making tool, to assist management to take the correct decisions in an uncertain environment. The development of a culture of risk management and specific procedures for implementation will assist public servants to focus on risk analysis and response.

This will improve the quality of strategic plans, which will assume both predictive and preventative dimensions.

## **18. REVIEW AND APPROVAL**

This risk management strategy shall be reviewed annually by the risk management committee and recommended for approval by Municipal Council.