Molemole Municipality

RISK MANAGEMENT STRATEGY 2024/25

MOLEMOLE LOCAL MUNICIPALITY RISK MANAGEMENT STRATEGY 2024/25

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1. Introduction

Molemole Municipality provides basic services to all that lives and operates within its jurisdiction in a continually changing environment. As such the potential for disruption to services or the loss of opportunities or damage to assets from a wide range of risks is inherent. It is therefore essential that the municipality takes appropriate action to minimise the potential for loss or damage through active risk management.

Risk Management is the process of identifying significant risks to the achievement of the organisations strategic and operational objectives, evaluating their potential consequences and implementing the most effective way of controlling them.

2. Definition

Enterprise risk management (ERM) is the application of risk management throughout the institution rather than only in selected business areas or disciplines. Enterprise risk management (ERM) recognizes that risks including opportunities are dynamic, often highly interdependent and ought not to be considered and managed in isolation. Enterprise risk management (ERM) responds to this challenge by providing a methodology for managing institution wide risks in a comprehensive and integrated way.

3. Purpose

The purpose of Risk management strategy is to outline a high level plan on how the municipality will implement its risk management policy. The risk management policy is designed to safeguard the achievement of the municipality's objectives through the effective control of risks, which threaten their achievement and taking advantage of the opportunities that may arise.

In addition the Risk Management objective is to assist the municipality:

a) To avoid certain adverse outcomes through taking proactive steps.
b) To ensure that opportunities are identified and exploited.
c) To cope when actual incidents to occur.
d) To identify and respond to changing social, environmental and legislative requirements.
e) To align risk appetite and strategy.
f) To enhance risk response decisions.
g) To reduce operational surprises and losses.
h) To prevent injury, damage and loss to stakeholders and employees or their property.
i) To integrate risk management into the organisational culture of the municipality.
j) To support staff in their efforts to manage the risks to which they are exposed.
k) To ensure compliance with the King III Code of Corporate Governance

4. Legislative Framework

Legalising risk management framework in public sector is in itself a macro risk management strategy of government towards ensuring the achievement of national goals and objectives. The Municipal Finance Management Act (Act 56 of 2003) (MFMA) provides in section 62(1) (c) that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems –

(i) of financial and risk management and internal control; and

The extension of general responsibilities in terms of section 78 of the MFMA to all senior managers and other officials of the municipalities implies that the responsibility for risk management vests at all levels of management and that it is not limited to only the accounting officer and internal audit.

5. Governance

5.1 Corporate governance

The municipality adheres to the principles espoused in the King III report on corporate governance. King III provides the following principles on governance of risk:

a) that the council should be responsible for the governance of risk.
b) the council should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.
c) the council should ensure that management considers and implements appropriate risk responses.
d) the council should ensure continual risk monitoring by management.
e) the council should receive assurance regarding the effectiveness of the risk management process.
f) the council should ensure that here are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.

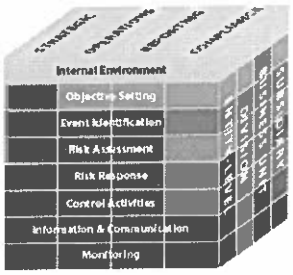
5.2 Bathopele Principles

Through the Batho Pele principles of 1997, government aims to instill a culture of accountability and caring public servants.

The connection between Bathopele and risk management is that risk management is an instrument to support the achievement of performance and service delivery excellence as espoused by Batho Pele

6. Risk management Process Framework

In carrying out Enterprise Risk Management the municipality adopts the Public Sector Enterprise Risk Management Framework. This framework provides a structured approach to identifying and managing risk within preset risk appetite and tolerance levels. The key components of the framework are depicted in the diagram below and brief explanation of each is provided.



7. Internal Environment

The internal environment encompasses the tone of an organization, and sets the basis for how risk is viewed and addressed by an entity's people, including risk management philosophy and risk appetite, integrity and ethical values and the environment in which they operate.

7.1 Objective Setting

Objectives must exist before management can identify potential events affecting their achievement. Enterprise Risk Management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with the risk appetite.

7.2 Event Identification

Internal and external events affecting achievement of the municipality's objectives must be identified, distinguishing between risks and opportunities. Opportunities are channelled back to management's strategy or objective-setting processes.

7.3 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.

7.4 Risk Response

Management selects risk responses - avoiding, accepting, reducing or sharing risk – developing a set of actions to align risks with the entity's risk tolerance and risk appetite.

7.5 Control Activities

Policies and procedures are established and implemented to help ensure the risk responses are effectively carried out.

7.6 Information and Communication

Relevant information is identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across and up the entity.

7.7 Monitoring

The entirety of ERM is monitored and modification made as necessary. Monitoring is accomplished through ongoing management activities, separate evaluations or both.

8. Internal Environment

8.1 Risk management Philosophy

All staff members are expected to demonstrate appropriate standards of behaviour in development of strategy and pursuit of objectives. The philosophy is supported by the following guidelines. Management and staff shall:

a) Consider all forms of risk in decision making
b) Create and evaluate Sub Department, Branch and business unit risk profile to consider what's best for their individual units and what's best for the municipality as a whole.
c) Support Executive Management's creation of a municipality level portfolio view of risk.
d) Retain ownership and accountability for risk and risk management at the business unit or other point of influence level. Risk management does not defer accountability to others.
e) Strive to achieve best practices in enterprise risk management.
f) Monitor compliance with policies and procedures and the state of enterprise risk management.
g) Lever existing risk management practices, wherever they exist within the municipality
h) Document and report all significant risks and enterprise risk management deficiencies.
i) Accept that enterprise risk management is mandatory, not optional.
j) Recognize that risk management is the responsibility of everyone in the municipality and shall be part of every employee's job description

8.2 Risk Appetite

Council undertakes it will unavoidably have a variable appetite to risk in different areas. Decisions will depend on the context, on the nature of the potential losses or gains, and the extent to which information regarding the risks is complete, reliable and relevant.

Risk appetite for council is as follows:

a) Council has no appetite for risk which may have a significant negative impact on the municipality's ability to provide basic services to the community.
b) Council has no appetite for risks that may have significant negative impact on municipality's long term financial sustainability
c) Council does not have appetite may compromise safety and welfare of the environment and the community.
d) Council has an appetite for risks that improve efficiency, reduces costs or improves efficiency.
e) Council has an appetite for risks that improves economic development within the municipal jurisdiction.

8.3 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
10	Maximum risk	The risk should be avoided or action should be taken to mitigate the risk to an acceptable level or
7.5 – 10	High risk	The risk should be exploited and/or mitigated
5 - 7.5	Medium risk	Action should be taken to reduce risk, and kept on the register for senior management monitoring
2.5 – 5	Low risk	Acceptable risk but continue to monitor
Less than 2.5	Minimum risk	No action should be taken or remove from the register

9. Risk management structure

All officials in the municipality are responsible for risk management to ensure achievement of the objective. The structures through which risk management will be reported are set out below:

Structure	Accountable to	Frequency of reporting
Council	Public	Quarterly
Audit committee	Council; Accounting Officer	Quarterly
Risk management committee	Audit Committee; Accounting Officer	Quarterly
Accounting Officer	Council	Quarterly
Internal audit	Audit committee	Quarterly
Risk Officer	Accounting Officer	Monthly
Head of Departments	Accounting Officer	Monthly
	Risk Management Committee	Quarterly
All other officials	Relevant supervisor/head of department	Monthly

10. Accountability, Roles and Responsibilities

To derive optimal benefits, risk management ought to be conducted in a systematic manner, using proven methodologies and techniques.

10.1 Municipal Council

The Municipal Council has an oversight role over the institution's portfolio view of risk and considers it against the risk tolerance of a municipality. The Council shall obtain assurance that key risks inherent in the municipality's strategies were identified and assessed, and are being properly managed.

The Council of a municipality shall also:

i, assist the Accounting Officer to deal with fiscal, intergovernmental, political and other risks beyond their direct control and influence.

ii, approve the risk management policy, strategy and implementation plan; and

iii, approve the fraud prevention policy, strategy and implementation plan.

10.2 Internal Audit

Internal Audit is administratively accountable to the Accounting Officer and functionally to the audit committee for providing independent assurance on the effectiveness of the municipality's system of risk management.

The role of the Internal Auditing in risk management is to provide an independent, objective assurance on the effectiveness of the municipality's system of risk management. Internal Auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

10.3 Accounting Officer

The Accounting Officer is the ultimate Chief Risk Officer of the municipality and is accountable for the municipality's overall governance of risk. By setting the tone at the top, the Accounting Officer promotes accountability, integrity and other factors that will create a positive control environment.

The Accounting Officer shall be responsible developing the systems, policies and procedures to ensure that the municipality operates in conducive control environment where overall attitude, awareness and actions of the municipal officials and management regarding internal control and their importance to the municipality is at par with the vision, values, and culture of the municipality.
The Accounting Officer also intervenes in instances where the risk management efforts are being hampered, for example, by the lack of co-operation by Management and other officials and the lack of municipal skills and expertise.

10.4 Audit Committee

The Audit Committee is responsible for oversight on the municipality's control, governance and risk management.

10.4.1. The Audit Committee must provide an independent and objective view of the effectiveness of the municipality's risk management.

10.4.2. Ensuring that the internal and external audit plans are aligned to the risk profile of the Institution;

10.4.3. Satisfying itself that it has appropriately addressed the following areas:

- i, financial reporting risks, including the risk of fraud;
- ii, Internal financial controls; and
- iii, IT risks as they relate to financial reporting.

10.5 Risk Officer

The Risk Officer shall be accountable to the Accounting Officer. The Risk Officer tasked with the overall efficiency of enterprise risk management working with the senior management to ensure a risk aware culture and that the risk management practices are embedded in the municipality.
The primary responsibility of the Risk Officer is to bring specialist expertise to assist the municipality to embed risk management and leverage its benefits to enhance performance.

The following are the responsibilities of the Risk Officer:

a) Assists the Audit Committee and Risk Management Committee to fulfill its responsibilities in terms of its charter.
b) Communicates with the Audit Committee and Risk Management Committee regarding the status of enterprise wide risk management.

c) Takes overall responsibility for the common risk framework and coordinates the risk management activities across the Municipality.
d) Proposes on a methodology and framework for ERM for approval by the Council and Accounting Officer.
e) Undertakes a gap analysis of the Municipality's ERM process.
f) Performs reviews of the risk management process to improve the existing process.
g) Facilitates quarterly risk management assessments and risk assessments for all major changes and incidents, such as accidents, purchases of capital equipment, restructuring of operational processes etc.
h) Develops systems to facilitate risk monitoring and risk improvement.
i) Ensures that all risk categories are included in the assessment.
j) Ensures that key risk indicators are included in the risk register.
k) Aligns the risk identification process with the Municipality's strategic objectives and integrated development plan.
l) Agrees on a system of risk quantification.
m) Compiles a consolidated risk register on a quarterly basis.

10.6 Other personnel

Other officials are accountable to their management for implementing and monitoring the process of risk management and integrating it into day to day activities. The responsibility includes:

i. Application of risk management processes in their respective function.
ii. Inform supervisors of new risks and significant changes in the known risks.

10.7 Risk champions

Risk champions act as a change agent in the risk management process and are distinguished from risk owners in that they assist the risk owners to resolve risk related problems. A risk champion should have a good understanding of the risk management concept, principles and processes.

10.8 Management

Management is accountable to the Accounting Officer for designing, implementing and monitoring risk management and integrating it to day to day activities.
empowering officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;

a) aligning the functional risk management methodologies and processes with the Institutional process;

b) devoting personal attention to overseeing the management of key risks within their area of responsibility;
c) maintaining a co-operative relationship with the Risk Management Unit and Risk Champion;
d) providing risk management reports;
e) presenting to the Risk Management and Audit Committees as requested;
f) maintaining the proper functioning of the control environment within their area of responsibility;
g) monitoring risk management within their area of responsibility;
h) holding officials accountable for their specific risk management responsibilities.
i) maintaining the functional risk profile within the Institution's risk tolerance (ability to tolerate) and appetite (risk that it is willing to take);
j) implementing the directives of the Accounting Officer concerning risk management;
k) prioritizing and ranking risks in their area of responsibility to focus responses and interventions on risks outside the Institution's tolerance levels;
l) benchmarking risk and risk mitigation activities;
m) assessing the effectiveness of risk management within area of responsibility; and
n) developing and implementing a fraud risk response plan.

The risk management reports submitted by Management to the Risk Management Committee should include:

a) Non-compliance risks with key laws and regulations;
b) Fraud related risks;
c) Risks associated with the breakdown in key internal controls;
d) Review of business continuity and disaster recovery plans;
e) New risks that emerged during the reporting period; and
f) Significant changes in current risk or risks that materialized during the reporting period

10.9 Risk management Committee

Risk management committee shall be appointed by the Accounting Officer and its role is to formulate, promote and review ERM objectives, strategy and policy and monitor the process at strategic level.

The duties of the Risk Management Committee shall include:

a) Establishment and monitoring of the implementation of:
b) Risk Management policy.
c) Risk Management Strategy.
d) Risk Management implementation plan.
e) Fraud prevention policy.
f) Ensuring the responsibilities and coordination of risk management are clear.
g) Advising the Accounting Officer on matters relative to risk management.

h) Overseeing the implementation and maintenance of the ongoing process of risk identification, quantification, analysis and monitoring throughout the municipality.
i) Reviewing and recommending actions for improvement regarding outstanding actions on risk management plans.
j) Reviewing the risk register on a quarterly basis to take note of material risks to which the municipality may be exposed and recommend appropriate remedial actions.
k) Ensure that the annual formal risk assessment is timeously performed.
l) Utilising the available resources to compile, develop and implement plans, procedures and controls within the municipality's Enterprise Risk Management policy to effectively management the risks within the municipality.

Prepare an annual plan summary report, which sets out the activities of the Risk Management Committee for the year. The report should be signed off by the Chairperson of the Risk Management Committee and submitted to Audit Committee.

11. Risk management guidelines

At least once a year a municipality shall undertake a thorough assessment of its risks at all levels using the following methodology.

11.1 Event identification

The objective of event identification is to understand what is at risk within the context of the municipality's explicit and implicit objectives and to generate a comprehensive inventory of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

The event identification process shall cover all risks, regardless of whether or not such risks are within the direct control of the municipality.

The following documents shall be consulted during the event identification process:

i, The annual and oversight reports of the municipality.
ii, The Integrated Development Plan
iii, Service Delivery and Budget Implementation Plan
iv, The external and internal audit reports.
v, Changes in the municipal related legislation.
vi, Assessments provided by the other stakeholders (Provincial Treasury, COGHSTA and other stakeholders)

The municipality shall identify strategic risks prior finalisation of the strategic choices to ensure that potential risk issues are factored into the decision making process for selecting the strategic options.

Operational risk identification shall seek to establish vulnerabilities introduced by employees, internal processes and systems contractors, regulatory authorities and external events.

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

12. Risk assessment

At least once a year a municipality shall undertake a thorough assessment of its risks at all levels. Strategic risk assessments shall be performed during the municipality's strategic sessions and operational risk assessment shall be performed between March and April annually.
Once risks have been identified they need to be assessed in terms of their likelihood of the risk occurring and the potential impact on the municipality should the risk occur. Risk assessment shall involve interrogating risks at two levels, namely at the inherent risk level and the residual risk level, using the same rating criteria for each assessment. The risk assessment shall produce management's perspective of the effectiveness of the existing controls.

Inherent risk considers the likelihood and impact of the risk in the absence of any management control interventions. Residual risk is the level of risk remaining after the mitigating influence of the existing control interventions is considered. The residual risk shall be benchmarked with the municipality's risk appetite to determine the need for further management intervention.
Risks shall be assessed on both the qualitative and quantitative basis.

The rating criterion for both likelihood and impact shall be as follows:

Impact

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

Likelihood

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

Management perspective of the existence of the current controls

Current controls in place shall be assessed based on their design effectiveness and operational effectiveness.

The criterion for assessment of the current controls shall be as follows:

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

Based on the assessment of the current controls management shall determine whether the residual risk is mitigated to an acceptable level is mitigated to an acceptable level within the risk tolerance of the municipality.

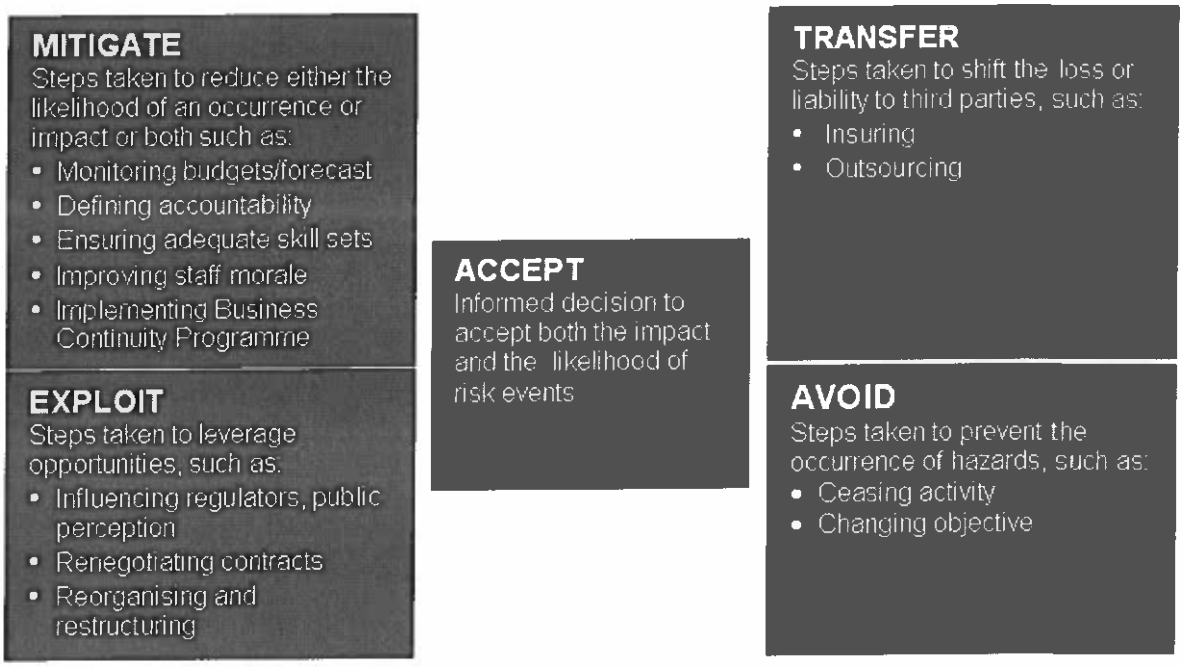
12.1.1 Emerging Risks

Emerging risks can be regarded as new risks that may be an imminent threat to the municipality's ability to achieve its objectives. These could include possible changes to the regulatory environment, the internal landscape, or social trends.

12.2 Risk Response

12.2.1 Responding to risk

Management shall develop response strategies for all material risks, whether or not the management thereof is within the direct control of the municipality, prioritizing the risks exceeding or nearing the risk appetite level. All key risk identified should be responded to however not all these risk will require treatment. The risks that fall outside of the municipality's risk tolerance levels are those which pose a significant potential impact on the ability of the institution to achieve set objectives and therefore require treatment. The management shall decide to accept the risk, mitigate the risk, transfer the risk, exploit the risk or avoid the risk altogether as indicated in the below diagram.



Once the Chief Risk Officer has assessed the risks and a level of risk rating has been assigned, an option for response is selected. There are four potential scenarios' that could lead to different response options:

Scenario's	Response Option
a) High likelihood and High Consequence	Avoid/Mitigate
b) High Likelihood and Low Consequence	Exploit/Mitigate
c) Low Likelihood and High Consequence	Transfer (e.g. Insurance)
d) Low Likelihood and Low Consequence	Accept

Consideration should be given to the cost of the response option as compared to the likely risk reduction that will result.

Risk owners nominated by executive management should assume responsibility for developing effective risk response plans. The risk owner can delegate responsibility (but not accountability) to his/her direct reports or consultants for detailed plan development and implementation.

12.2.3 Control Activities to mitigate risks

Management is responsible for developing the internal control framework that ensures that the municipality's structure and systems support its policies, plans and objectives, and that it operates within laws and regulations. It should also ensure that policies and objectives are implemented in an efficient and effective manner.

All officials in the municipality have the responsibility for maintaining effective systems of internal controls, consistent with their delegated authority.

12.2.4 Communication and reporting

The Chief Risk Officer must continuously monitor the municipality's risk profile to ensure that the desired response strategy for a risk is implemented successfully. Relevant information, properly and timeously communicated is essential to equip the relevant officials to identify, assess and respond to risks. The municipality's risk communication and reporting process should support enhanced decision making and accountability through dissemination of relevant, timely, accurate and complete information and communicating responsibilities and actions.

The following techniques shall be used to assist with monitoring:

a) Identification and tracking of risk indicators that can act as an early warning system.
b) Risk management shall be a standing item in management meetings whereby all management officials shall report progress on the implementation of risk mitigation measures
c) Incident reporting to be made to both management and risk management committee for unacceptable losses

d) Emerging risk reporting at both management and risk management committee meetings

13. Approval

The risk management strategy shall be reviewed on an annual basis and adopted by Council.

RECOMMENDED BY: _____ 05/06/2024

M.J Ramakgolo **Date**
Acting Chairperson Risk Management Committee

APPROVED BY: _____ 05/06/2024

M.E Paya **Date**
Mayor