

POLICY 008/2016 RAADSBELEID

SUBJECT/ONDERWERP: RISK MANAGEMENT FRAMEWORK

REFERENCE/VERWYSING: 3.1.3.3.2.41

RESOLUTION NO/BESLUIT NR: 30.1/06/2016

DATE/DATUM: 7 June 2016

1. **INTRODUCTION**

This document contains the Municipality's Governance of Risk Management and outlines the Municipality's Risk Management Framework. It describes the risk management processes and sets out the requirements in generating risk management action.

The ERM process creates the consciousness at both political and administrative levels of the Municipality's risk appetite and profile as it strives to achieve the legislative mandate of the Municipality and the service delivery imperatives.

The essential focus of the King III report on Corporate Governance is that the Council should exercise leadership to prevent risk management from becoming a series of activities that are detached from the realities of the municipality's businesses. The management of risks has evolved from the management of financial risks through insurance to business risk management and recently to enterprise risk management which espouse the management of risks at all levels of the municipality.

The Municipality's ERM framework which is aligned to the COSO ERM Integrated Framework and the National Treasury Risk Management Framework, is applicable to all the governance and administrative structures established in the Municipality in terms of either the applicable legislation or by way of formal resolutions of the Council. The Municipality's ERM framework is applicable to all the Departments within the Municipality.

2. **THE PURPOSE OF THE RISK MANAGEMENT FRAMEWORK**

This Framework is primarily developed to raise awareness, inform and guide Managers and Departments on the Municipality's approved approach to risk management.

Its main aim is to provide a practical Framework to assist managers in the effective identification, evaluation and control of risk that may impact upon the achievement of the corporate and service objectives and priorities that the organisation has set itself to achieve. In this way, risk management is intrinsically linked to the organisation's 'positive aspirations and achievements' rather than solely focused on 'negative factors'. Staff should therefore view risk management across the organisation as a tool to support achievement rather than simply another compliance procedure.

"If risk management is to be effective there must be a clear link between objectives and risks. It is, therefore, essential that risk management is embedded in the planning process."

Whilst it is recognised that many managers will have already been managing risk on a daily basis, more often than not, this would have been on an intuitive and instinctive basis.

It is important that the Department Risk Management should assess the impact of similar risks throughout the Municipality, thus the need for a consistent Risk Framework and Policy. A clear over-arching principle of this Framework is to develop risk management processes and procedures alongside existing corporate arrangements. This has the clear advantage of achieving and demonstrating an embedded risk management process, but also reduces the need for additional reporting mechanisms.

This Framework is therefore premised on the acknowledgement and acceptance of the applicability of:

- The Municipality's Governance structure, Protocols and Model
- The Municipality's Delegations of Authority approved by Council in terms of applicable legislation
- The provision of the Municipal Finance Management Act, no 56 of 2003, in particular:
 - o section 95 (c) (i), section 105,
 - o section 165 (2) (a), (b)(iv), and section 166 (2) (a) (ii)

as well as the Municipal Systems Act (Act 32 of 2000) and the Municipal Structures Act (Act 117 of 1998)

- King III report on Corporate Governance

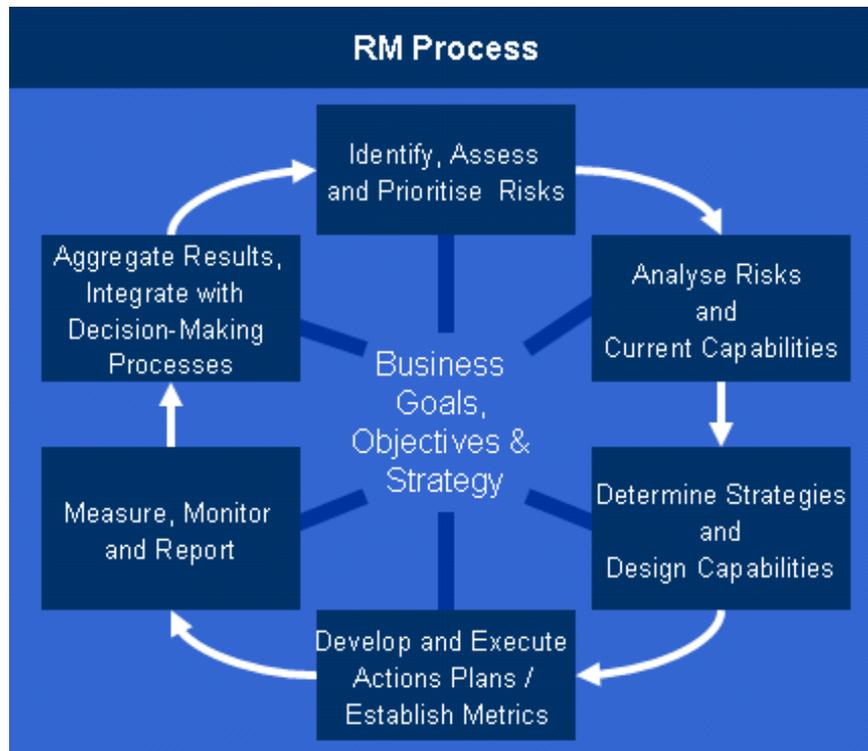
3. ENTERPRISE RISK MANAGEMENT MODEL

The Municipality has adopted a risk model and process that will enable the embedding of a sound risk management practices in all its strategic and operational activities. Everyone must have a clear understanding of the roles and responsibilities, the approved methodologies, and the integration processes that have been adopted by the Municipality and they are required to apply and follow.

ERM encompasses aligning risk appetite and strategy; enhancing risk response decisions; reducing operational surprises and losses; identifying and managing multiple and cross-enterprise risks; seizing opportunities; and improving deployment of capital. It is important that there is a common understanding of the term risk as a pre-cursor to the review of risk management, its benefits and limitations.

4. RISK MANAGEMENT PROCESS

As seen in the diagram below, risk management is a cyclic process which requires regular and systematic evaluation to deliver a sound decision making process. This, in turn, leads to the achievement of high quality services delivered on a value for money basis.



Risk Identification, Assessment and Prioritisation

The continuous risk management process involves the identification of risks, measurement, analysis and assessment of the impact of risks, and identifying strategies to mitigate the risks to acceptable levels, monitoring and communicating the risk profiles, and integrating risk in the decision making processes. As depicted above, risk management should be integrated with strategic management and strategy implementation to ensure that the Municipality is able to monitor achievement of objectives.

The Risk Management policy is the starting point in the risk management framework and must be prepared to ensure that risk management becomes the concern of line management and everyone in the Municipality and that risk management practices are consistent across the whole of the Municipality. Risk assessments at strategic and operational levels will be conducted at least annually. The responsibility to ensure that risk assessments are conducted rests with the Municipality's risk management function, and the Municipal Manager. The assessment of risks requires the identification of organisational objectives and strategies, and a continuous analysis of inherent events that may impact on the achievement of objectives and strategies. The Municipality have adopted a common risk assessment methodology that will be

utilised to enable a uniform assessment, rating and prioritising of risks. This includes the risk terminology, risk assessment tables, and the risk matrix as depicted below.

- Risk assessment can be performed through workshops, interviews, questionnaires and surveys, research, control assessments, either using worst case scenario analysis, PESTEL analysis, qualitative or quantitative methods.
- The assessment of risks will be facilitated by the risk management functions of the Municipality. However, the primary responsibility for the management of identified and emerging risks lies with the respective management of the Municipality and/or the business unit.
- The assessment requires the identification of the event, an analysis of the likelihood of occurrence and the associated impact (nature and extent). Therefore with the adoption of the risk assessment methodology, the same tables to analyse likelihood of occurrence and impact tables must be utilised throughout the Municipality. The benefits hereof are that a common risk language is used by the Departments, and measurements and prioritisation of risks is standardised.
- Management is required to identify risk mitigation responses in respect of all identified risks, devise action plans to address critically and high risk areas; and monitor any changes to the medium and low risks.

The risk management framework is comprised of four key elements as illustrated below:

IDENTIFICATION

- All activities with the municipality's business, both existing and new should be assessed in order to identify material current as well as emerging risks, which threaten the achievement of objectives or may cause material loss or damage or business continuity implications for the stakeholders or reputation risks for the municipality.

MEASUREMENT

- The risks associated with any new activities will be evaluated in order to determine the potential exposure to the municipality.
- All material existing risks will be re-evaluated on at least an annual basis.
- All risks will be evaluated according to a likelihood and impact basis on a scale of 1 to 5.

MANAGEMENT

- Appropriate risk management will enable the municipality to both minimize loss and optimize opportunities.
- The identification and monitoring of risk is the responsibility of the Department Risk Management but Senior Management accepts joint responsibility.

- The Department Risk Management will co-ordinate the management system, monitoring of results and reporting of risks to the Accounting Officer, Risk Management Committee and the Audit Committee.

REPORTING

- All new risks must be reported and included in the municipality's risk register.

Risk Likelihood / Impact assessment criteria

All risks identified during the workshop are being rated by the participants, against their probability and impact both inherently and residual ratings.

Likelihood, also known as **probability**, is defined as the chances that the risk will occur based on previous history, management experience and any current situation; and

Impact, also known as **consequence**, is defined as the level or extent to which the risk would affect the ability of the business to deliver its strategy and objectives if it were

The Municipality will use the risk rating guide below to assess all identified risks:

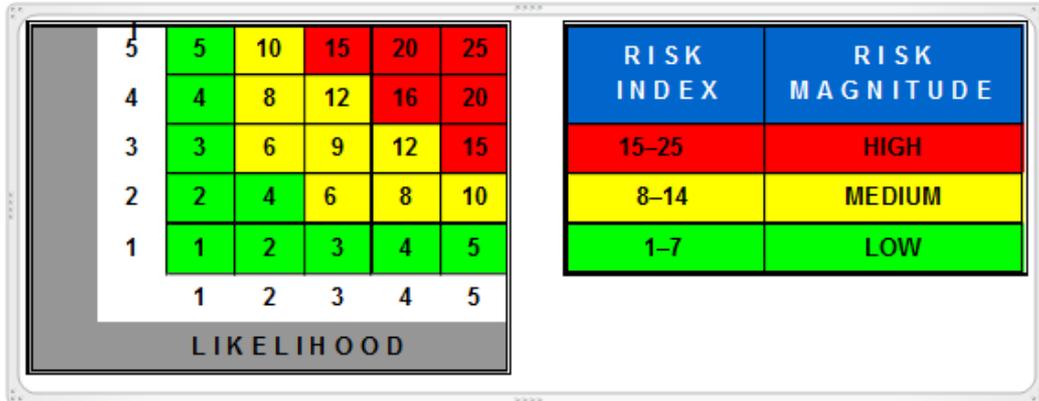
RISK RATING GUIDE

LIKELIHOOD RATING GUIDE		
SCORE	LIKELIHOOD	OCCURRENCE
5	Common	the risk is already occurring or is likely to occur more than once in the next 12 months
4	Likely	the risk is likely to occur at least once within the next 12 months
3	Moderate	the risk is likely to occur in the next 2 - 3 years
2	Unlikely	the risk is unlikely to occur in the next 3 years
1	Rare	the risk is unlikely to occur even in the long term

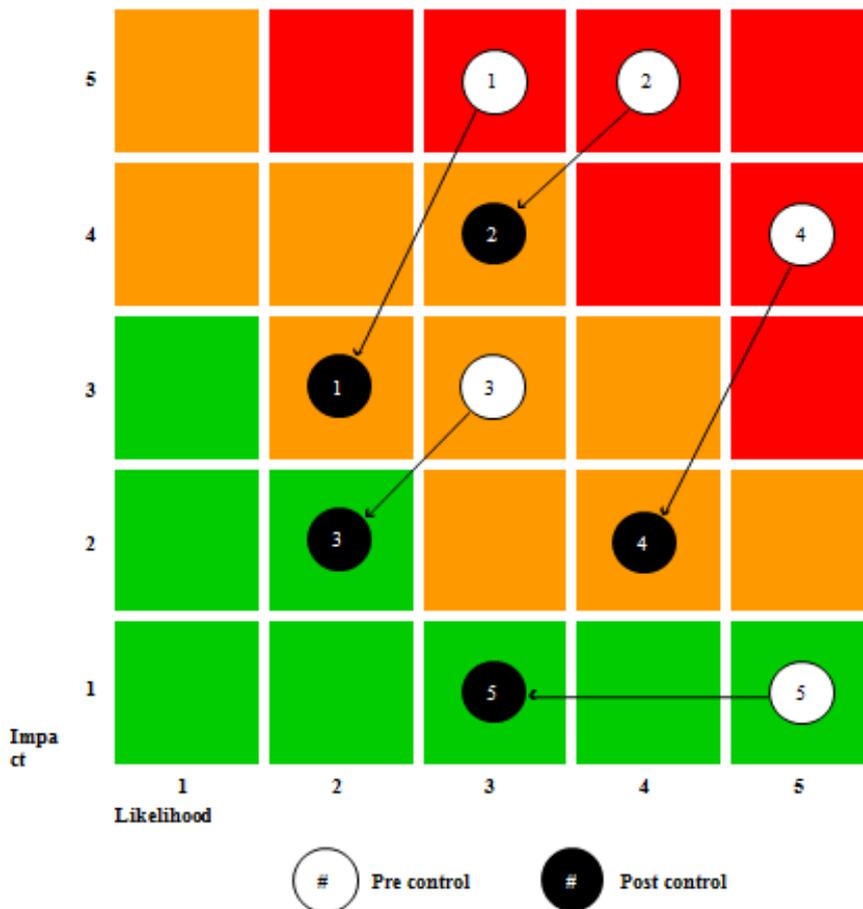
LIKELIHOOD RATING GUIDE		
SCORE	LIKELIHOOD	OCCURRENCE
5	Critical/catastrophic	the risk will have a significant impact on the achievement of objectives
4	Major	the risk will have a high impact on the achievement of objectives
3	Moderate	the risk will have a moderate impact on the achievement of objectives
2	Minor	the risk will have a low impact on the achievement of objectives
1	Insignificant	the risk will have a negligible impact on the achievement of objectives

Risk Matrix

The risk matrix below as per the risk rating guide above, will depict the risk indices that result from assessing the likelihood and impact, the matching risk magnitude categories the risk indices as high, medium or low:



The following diagram differentiates between inherent and residual risk exposures;



Procedures during the compilation of the Risk Register:

- The risk assessment was conducted in the form of workshops.
- The following processes was follow:
- Objective Setting.
- Formulation of the risk.
- Description what effect the risk would have on the objectives of the municipality should it occur.
- Determine Inherent Risk (risk before the implementation of controls).
- Evaluate the likelihood of risk on a scale from 1 to 5 as set above.
- Evaluate the impact of risk on a scale from 1 to 5 as set above.
- Determine risk level of Inherent risk by multiplying the likelihood and impact.
- Total 1 to 7 - *Low*
- Total 8 to 14 - *Medium*
- Total 15 to 25 - *High*
- Identification of the existing controls to mitigate the risk.
- Determine the level of the residual risk (risk after implementation of controls). (Automatic process as set out in the abovementioned slide).

5. OUTPUTS AND BENEFITS FROM THE RISK MANAGEMENT PROCESS

If a structured risk management process is in place and is adhered to, a number of resultant benefits can be derived from the process.

The key benefits of risk management include;

- A better, more informed, decision-making process; and
- An ability to manage the process of achieving objectives.

This is particularly relevant in the context of the need to demonstrate best value and continuous improvement in service delivery, especially with an increasing reliance being placed on partnership working.

However, there are further examples of recognised benefits that are direct outputs from an effective risk management process. These include:

- Increased focus on what needs to be done;
- More satisfied citizens;
- Better management of change programmes;
- Supports innovation;
- Fewer complaints;
- Controlled insurance costs;
- Competitive advantage;
- Better quality services;
- Enhanced ability to justify actions taken;
- Delivering best value;
- Protection of reputation; and
- Getting it right first time.

In terms of supporting the delivery of the Municipality's services, the above examples of an effective risk management process are clearly attractive and highly desirable.