



# **CHRIS HANI**

## **DISTRICT MUNICIPALITY**

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### **SUSTAINING GROWTH THROUGH OUR PEOPLE**

#### **RISK MANAGEMENT STRATEGY**



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**1 DOCUMENT REVISION HISTORY**

<b>Date</b>	<b>Author</b>	<b>Revision</b>	<b>Description</b>

**Approvals**

<b>Name</b>	<b>Title</b>	<b>Approval Date</b>	<b>Effective Date</b>	<b>Signature</b>

## **2 INTRODUCTION**

### **2.1 OBJECTIVES**

The objectives of this Risk Management Strategy are to:

- i) Provide a level of assurance that current significant risks are effectively managed;
- ii) Improve municipality's performance by assisting and improving decision making and planning;
- iii) Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefits the organisation in encouraged;
- iv) Provide a sound basis for integrated risk management and internal control as components of good corporate governance;
- v) Establish a culture of Risk Management within the Municipality;
- vi) Effectively manage specific risks within the Municipality such as security and fraud and corruption; and
- vii) Ensure that the Municipality complies with legislation, policies, and regulatory requirements
- viii) Embed risk management into the culture and language of the Chris Hani District Municipality;
- ix) Delineate boundaries regarding risk management within the Chris Hani District Municipality;

### **2.2 PURPOSE**

The purpose of this strategy document is to provide a risk management framework and guidelines to be followed within the Chris Hani District Municipality (hereafter referred to as "CHDM").

## 2.3 DEFINITIONS

- a) **Risk** – is the chance of something happening or not happening that will have an impact upon the objectives of CHDM and/or individual business units. And or uncertain future events (threats and opportunities) that could influence the achievement of the goals and objectives of the municipality.
- b) **Risk Management** – is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding acting on and communicating risk issues and opportunities.
- c) **Enterprise Risk Management**- is a continuous, proactive and systematic process effected by the Chris Hani District Municipality's Council, Management and other personnel, applied in strategy setting and across the operations of the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite reasonable assurance regarding the achievement of entity objectives." It is a structured and consistent approach across the Municipality that aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks (threats and opportunities) that the Municipality faces to create stakeholder value, and or Choices made under conditions of uncertainty, bound by acceptable levels of risks, designed to sustain/ maximise stakeholder value.
- d) **Control Activities**- policies and procedures established and implemented to help ensure the risk activities are effectively carried out.
- e) **Inherent Risk**- This is the product of the probability of occurrence and the severity of outcome, prior to control measures.
- f) **Residual Risk**- is the risk after considering the effectiveness of management's risk responses (controls).
- g) **Risk Assessment** - The overall Process of identifying, analysing and evaluating risk. The risk assessment process should consider risks that are significant to the achievement of the Municipality's objectives. This is a continuous process, requiring regular reviews, as and when internal and external changes influence the Municipality's strategies and objectives.
- h) **Risk Categories**- is the grouping of risks with similar characteristics used in established the clients risk portfolio (see risk profile). Ultimately determined by the

client, the characteristics used to define risk categories typically reflect the client's business model, industry or other factor that derives risk within the organisation.

- i) **Risk Appetite**- the amount of risk taken in pursuit of value.
- j) The above conduct is in contravention of the following clauses of SALGBC Collective Agreement:

**Risk Strategy**- the approach adopted for associating and managing risk based on the Municipality's objectives and strategies.

- k) **Board**- council

## 5. ACRONYMS

AO	Accounting Officer (Municipal Manager)
CHDM	Chris Hani District Municipality
MFMA	Municipal Finance Management Act
AC	Audit Committee
RMC	Risk Management Committee

## 6. SCOPE

This strategy document applies to all personnel within the Chris Hani District Municipality. It does not apply to any local municipality falling under the Chris Hani District Municipality.

## 7. LEGISLATIVE REQUIREMENTS

The Municipal Finance Management Act stipulates in section 62 that:

*“The Municipal Manager....has and maintains effective, efficient and transparent systems:*

- (i) of financial and risk management and internal control; and*
- (ii) of internal audit operating in accordance with any prescribed norms and standards”*

The extension of the general responsibilities, in terms of section 79 of the MFMA, to all Top Management is a cornerstone in the institutionalization of risk management in the public service. It establishes responsibility for risk management at all levels of management, extending beyond the roles of the Accounting officer, the internal audit units or the Audit Committee in this regard.

The King Report on Corporate Governance also reflects on risk management as an integral part of strategic and operational activities. King iv code states “The Board is

responsible for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process.”

The institute of Internal Auditors defines risk as “the uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood.”

Risk Management is more than an exercise in risk avoidance. It is as much about identifying and utilizing opportunities as avoiding or mitigating losses.

## **8. BENEFITS OF RISK MANAGEMENT**

The benefits of municipality risk management to CHDM encompass:

- ✓ **Aligning risk appetite and strategy** - Management considers their risk appetite in evaluating strategic alternatives, setting, related objectives and developing mechanisms to manage related risks.
- ✓ **Enhancing risk response decisions** - Municipality’s Risk Management provides the rigour for management to identify alternative risk responses- risk avoidance, reduction, sharing and acceptance.
- ✓ **Reducing operational surprises and losses** – CHDM faces a myriad of risks affecting different parts of the Organisation and Municipality Risk Management facilitates effective responses to the interrelated impacts and enhances an integrated response to multiple risks.
- ✓ **Seizing opportunities** – By considering a full range of potential events, Management is positioned to identify and proactively realize opportunities.
- ✓ **Improving deployment of capital** – Obtaining robust risk information allows Management to effectively assess overall funding requirements and enhance allocation.
- ✓ **Ensuring compliance with laws and regulations** - Municipality Risk Management contributes to effective reporting and monitoring of compliance with laws and regulations and assists with the limitation of damage to CHDM’s reputation and associated consequences.
- ✓ **Increasing probability of achieving objectives** – Municipality’s Risk management achieve CHDM’s performance and financial targets and assist with the prevention of loss resources. Control and risk interventions will be chosen on the basis that they increase the likelihood that CHDM will fulfill its intentions/ commitments to its stakeholders.

- ✓ **Every employee of CHDM has a part to play in Municipality Risk Management.**

## **9. PRINCIPLES OF RISK MANAGEMENT**

- ✓ The principles contained in this strategy will be applied at both strategic and operational levels within the municipality. The following principles have been identified to ensure the risk management vision of the Municipality is achieved:
  - **Risk management is part of everyday management;**
  - **Everyone is a risk manager;**
  - **Risk sharing (risk awareness); and**
  - **Risk cannot always be eliminated. Some risks should be managed.**
- ✓ CHDM's risk management strategy will be applied to all operational aspects of the municipality and will consider external strategic risks arising from or related to our partners in projects government departments the public and other external stakeholders, as well as wholly internal risks.
- ✓ Our positive approach to risks management means that we will not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalising on strategic strengths.
- ✓ All risk managements activities will be aligned to the CHDM values and principles, objectives and organisational priorities, and aims to protect and enhance the reputation and standing of the municipality.
- ✓ Our risk management approach will inform and direct our work to gain confidence on the reliability of our risk strategies and therefore provide assurance. Managers and staff at all levels will have a responsibility to identify, evaluate and manage or report risks, and will be equipped to do so.
- ✓ Risk Management in the municipality should be proactive and reasoned. Strategic and operational risks should be identified, objectively assessed, and where this is the appropriate, response actively managed.
- ✓ The aim is to anticipate and where possible, prevent risks resulting in unwanted events rather than dealing with their consequences. However, for some risks where the likelihood of risk occurring is remote, but the consequences on the entity is high, we will ensure that business continuity plans are developed and authorised by the municipal manager. This will allow us to contain the negative effect of unlikely events, which might occur.



- ✓ In determining appropriate risk management controls, cost of control/ risk a management, the impact of risk occurring will be balanced with the benefits of reducing risk. This means that we will not necessarily set up and monitor controls to counter risks where the cost and effort are grossly disproportionate to the impact or expected benefits.
- ✓ We also recognise that some risks can be managed by transferring them to them to a third party, for example by insurance. In the current climate it is rare to effectively / fully transfer risks by contracted arrangements.
- ✓ The underlying premise of Enterprise Risk Management (ERM) is that every entity exists to provide value for its stakeholders.
- ✓ All entities 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.
- ✓ ERM enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.
- ✓ Value is maximised when management sets objectives to achieve an optimal balance between growth and related risks, and effectively deploys resources in pursuit of the entity's objectives.

## 10. RISK MANAGEMENT RESPONSIBILITIES AND STRUCTURES

- ✓ All personnel have a responsibility for maintaining good internal control and managing risk in order to achieve personal, workgroup and strategic objectives. Collectively, staff at operating units need the appropriate knowledge, skills, information and authority to establish, operate and monitor the system of risk control. This requires a good understanding of the municipality, its objectives, the risks it faces and the people we deal with. Everyone should be aware the risks they are empowered to take, which should be avoided and reported upwards.
- ✓ The structures through which risk management will be reported are set out below. Detailed guidelines on roles and responsibilities are provided in **Appendix A**.

### 10.1 Committee Responsibilities

Ref	Activity	Responsibility	Frequency
1.	The Audit Committee will meet on a quarterly basis.	Committee Chairperson	Quarterly
2.	The Risk Management Committee will review risk management progress on a quarterly basis.	Committee Chairperson	Quarterly



3.	The department/ divisions Management committees will meet on a quarterly basis.	Managers/ Assistant Managers	Quarterly
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## 10.2 Reporting Responsibilities

Ref	Activity	Responsibility	Frequency
1.	The Audit Committee will include statements regarding risk management performance in the annual report to stakeholders.	Committee Chairperson	Annually
2.	<p>The Risk Management Committee will submit a risk management report to the Municipal Manager and interacts with the Audit Committee on a quarterly basis.</p> <p>The report will focus on the following:</p> <ul style="list-style-type: none"> <li>✓ The top strategic risks facing CHDM (All unacceptable residual risk exposures)</li> <li>✓ The strategic risks per department/division (approximately top 5 identified risks); and</li> <li>✓ Any risk developments (changes) / incidents/ losses</li> </ul>	Committee Chairperson	Quarterly
3.	<p>Each department/ division will draft a risk management report for submission to the Risk Management Committee on a quarterly basis.</p> <p>This will focus on the following:</p> <ul style="list-style-type: none"> <li>✓ The strategic risks per department/ division (approximately top 10 identified risks); and</li> </ul> <p>Any risk developments (changes)/ incidents/ losses</p>	Managers/ Assistant managers	Quarterly
4.	The Chief Risk Officer will be responsible for developing standard risk management reporting templates and collate risk management information for submission at all levels.	Chief Risk Officer	As scheduled

**10.3 Risk Assessment Responsibilities**

Ref	Activity	Responsibility	Frequency
1.	The council will independently review the key risks of CHDM at least once a year.	Executive Mayor	Annually
2.	The Risk Management Committee will arrange for CHDM's key risks to be formally re- evaluated once a year.	Municipal Manager	Annually
3.	Each departments/ divisions Management will formally reassess the top 20 risks annually (in their environment) and report on the top 10 risks.	Manager/ Assistant Managers	Annually
4.	All Departments will review risk registers at each meeting and update the register's contents to reflect any changes without formally reassessing the risks.	All	As scheduled
5.	The Chief Risk Officer will be responsible for the facilitation of all risk assessments, and populating the risk registers	Chief Risk Officer	As scheduled

**10.4 Control Responsibilities**

Ref	Activity	Responsibility	Frequency
1.	The Chairperson of the Audit Committee will consider Internal Audit and management's report concerning the effectiveness of internal controls.	Audit Committee Chairperson	Quarterly
2.	The Risk Management Committee will report to council regarding the performance of internal controls for those risks in the risk registers.	Committee Chairperson	Quarterly
3.	The departments/ divisions will report to the Risk Management Committee regarding the performance of internal controls for those risks in the operational risk registers.	Head of Departments	Quarterly
4.	All risk registers will contain action plans for improving risk controls and risk interventions. Each committee will review progress made with these action plans.	All	As scheduled

**10.5 Governance Responsibilities**



Ref	Activity	Responsibility	Frequency
1.	Each key risk will have a nominated risk owner, who will be responsible for the following <ul style="list-style-type: none"><li>✓ Updating the risk information.</li><li>✓ Providing assurance regarding the risk's controls.</li><li>✓ Co-ordinate the implementation of action plans for the risk.</li><li>✓ Reporting on any developments regarding the risk.</li></ul>	All	As scheduled
2.	The internal audit function will use the outputs of risk assessments to compile its strategic three year rolling and annual internal audit coverage plan and will evaluate the effectiveness of risk controls.	Internal Audit	Annually and as scheduled
3.	The Internal Audit Function will review the effectiveness of CHDM's risk management processes while executing their plan and submit their reports to the Audit Committee for consideration. Internal Audit will also submit an updated summary of their findings for the whole year and submit to the Audit Committee.	Internal audit	Annually

## **11. APPENDIX A- RISK MANAGEMENT GUIDELINES**

### **A. Risk Management Guidelines**

#### **A.1 Accountability and responsibility guidelines**

##### **A1.1 Roles and responsibilities of the Council and Municipal Manager**

###### **A.1.1.1 The Council, Municipal Manager and Top Management are accountable for risk management**

The council should be aware of their responsibilities for the management of risk within the municipality. These responsibilities are stated as follows:

- ✓ The council together with the Municipal Manager and Heads of departments are responsible for the identification of strategic risks, the total process of risk management, as well as for forming its own opinion on the effectiveness of the process. Management is accountable to the council for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the municipality;
- ✓ The Council, Municipal Manager and Heads of Departments should identify and fully appreciate the business risk issues and key performance indicators affecting the ability of the Municipality to achieve its strategic purpose and objective; and
- ✓ The Council, Municipal Manager and Heads of department should ensure that appropriate systems are in place to manage the identified risks, measure the impact and to proactively manage it, so that the Municipality's assets and reputation are suitably protected.

The Audit Committee Charter should spell out the Audit Committee's responsibilities regarding risk management. The Audit Committee is a council sub-committee and the above council responsibilities should be clearly documented in the Audit Committee Charter approved by the Council.

###### **A.1.1.2 The council and Municipal Manager will provide stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored**

- ✓ The Council together with the Municipal Manager should receive credible and accurate information regarding the risk management processes of the municipality in order to

give the necessary assurance to stakeholders. The reports from the Audit committee and Departments must provide an evaluation of the performance of risk management and internal control. The council together with the Municipal Manager should ensure that the various processes of risk management cover the entire spectrum of strategic risk.

- ✓ The assurance process includes statements regarding the appropriateness of the Municipality's risk/ reward trade-off.
- ✓ Because of the fluid nature of risk in the municipality, it is imperative that risk is confronted in a systematic and structured manner. In our complex environment where there are literally thousand of technical, process and strategic risks, it is vital that the management of risk is undertaken in a formalised manner. The Council and Municipal Manager should provide stakeholders with the assurance that management has a pre-emptive approach to risk.

**A.1.1.3 The Council and Municipal Manager will maintain a formal risk policy for the entity.**

- ✓ Stakeholders need to understand the Council and Municipal Manager's standpoint on risk. The council together with the Municipal Manager should therefore maintain the Municipality's formal risk policy, which decrees the municipality's approach to risk. The risk policy statement underpins the development of the Municipality's enterprise risk Management process. The policy can be used as a reference point in matters of dispute and uncertainty such as risk tolerance and appetite for risk.

**A.1.1.4 The council and Municipal Manager will formally evaluate the effectiveness of entity's risk management process once a year.**

- ✓ The Council together with the Municipal Manager will make up its own mind regarding the effectiveness of the Municipality's risk management processes. Success with risk management will be evaluated from risk committee reports, variance reports, and speed of progress, organisational risk culture, unexpected losses, internal control effectiveness and business success. The council evaluations will be formally recorded in minutes of council meetings.
- ✓ It is recognised that risk management has involved into a complex management discipline in its own right. The council's evaluations of risk management, therefore, will be supplemented by an independent review to be performed by the Municipality's Internal Audit Function.
- ✓ The annually review will be undertaken by qualified staff, which is able to review all aspects of risk management.

- ✓ Management must ensure that sufficient independence is maintained in conducting the annual review. Assurance of the processes surrounding key risks must be given. This implies some knowledge of the processes of risk management and assumes that they have been witnessed to some degree. The observation of risk management processes should not, therefore, have had operational participation.
- ✓ Management must ensure that sufficient independence is maintained in conducting the annual review. Criteria for the evaluation have been established (Refer to **Appendix B** for the tables to be considered for the assessment). Assurance of the processes surrounding key risks must be given. This implies some knowledge of the processes of risk management and assumes that it has been witnessed to some degree.

**A1.1.5 The Council and Municipal Manager will confirm that the risk management process is accurately aligned to the strategy and performance objectives of the entity.**

- ✓ The Council together with the Municipal Manager will ensure that the risk management processes address risk in a balanced way, giving due attention to all types of risk. The Council together with the Municipal Manager will evaluate whether appropriate resources are being applied to the management of strategic risks, reputation, stakeholder risk, financial risk, operational, regulatory, and technical risks.
- ✓ The Council together with the Municipal Manager will evaluate whether risk management processes are aligned to the strategic and performance objectives of the municipality. A balanced perspective of risk management is required in proportion to the weighting of potential risk impact across the municipality.
- ✓ The Municipal Manager must ensure that there is a future- looking orientation included in the consideration of risk.

**A1.1.6 The Audit / Risk Committee will monitor the entity's risk management processes**

- ✓ The Audit / Risk Committee will be responsible for addressing the corporate governance requirements of risk management and monitoring the municipality's performance with risk management. The Audit / Risk Committee has a defined mandate and terms of reference, which covers the following aspects:
  - Constitution;
  - Purpose;
  - Responsibilities and duties;

- Authority;
  - Membership; and
  - Meetings.
- ✓ The Audit Committee will meet at least on a quarterly basis.

**Risk Management Committee**

- ✓ The risk management committee will be responsible for addressing the corporate governance requirements of risk management and monitoring the Municipality's performance with risk management. The committee has a defined mandate and terms of reference, which covers the following aspects:
- Constitution;
  - Membership;
  - Authority;
  - Terms of reference; and
  - Meetings
- ✓ The risk management committee will meet on at least on a quarterly basis.
- ✓ Functions and responsibilities of the risk management committee include:
- Establishment and monitoring of the implementation of the Risk Management Strategy;
  - Ensuring that the responsibilities and co-ordination of risk management are clear;
  - Advising the council and Municipal Manager on urgent risk management issues and required initiatives as part of its quarterly reporting process;
  - Overseeing the implementation and maintenance of the ongoing process of risk identification, quantification, analysis and monitoring throughout the municipality;
  - Ensuring that the risk management induction, training and education programs are targeted appropriately for all levels of personnel and that it is established and implemented;
  - Reviewing and recommending actions for improvement regarding outstanding actions on risk management plans;
  - Evaluating the risk profile of the Municipality as well as for major projects and new ventures, requiring the approval of the council;
  - Reviewing issues for consideration as identified by the council and Audit / Risk Committee;
  - Assist with the development of an integrated approach to financing and managing risk to minimise cost;



- Facilitating the sharing of post loss analysis information and thereby improving prevention and control measures;
- Reviewing the risk assessments on a quarterly basis to take note of the material risks to which the Municipality may be exposed and consider, notes and if necessary, comments on the strategy for managing those risks;
- Considering, notes and if necessary, comments on management responses to significant risks; and
- Keeping abreast of all changes to the risk management and control system and ensures that the risk profile and common understanding is updated, as appropriate.

#### A.1.3 Roles and responsibilities of Management

- ✓ Management is accountable to the Municipal Manager for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the municipality.
- ✓ The Municipal Manager is responsible for appointing a Chief Risk Officer to assist management in discharging its responsibilities. **This could however be a delegated function.**
- ✓ More specifically Management is responsible for:
  - Designing an Enterprise Risk Management programme in conjunction with the Chief Risk Officer;
  - Deciding on the manner in which risk mitigation will be embedded into management processes;
  - Inculcating a culture of risk management in the municipality;
  - Providing risk registers and risk management reports to the Chief Risk Officer pertaining to risk and control;
  - Identifying positive aspects of risk that could evolve into potential opportunities for the municipality;
  - Assigning a Manager to every key risk for appropriate mitigating action and to determine an action date;
  - Viewing risk as an opportunity by applying the risk / reward principle in all decisions impacting upon the Municipality;
  - Utilising available resources to compile, develop and implement plans, procedures and controls within the framework of the municipality's ERM Policy to effectively manage the risks within the municipality;
  - Ensuring that adequate and cost effective risk management structures are in place;

- Identifying, evaluating and measuring risks and where possible quantifying and linking each identified risk to key performance measurement indicators;
- Developing and implementing risk management plans including;
  - ◇ Actions to optimise a risk / reward profile to maximise reward with risk contained within the council and Municipal Manager's approved risk tolerance;
  - ◇ Implementation of cost effective preventative and contingent control measures; and
  - ◇ Implementation of procedures to ensure adherence to legal regulatory requirements.
- ✓ Monitoring of the ERM processes on both a detailed and macro basis by evaluating changes, or potential changes to risk profiles;
- ✓ Implementing and maintaining adequate internal controls and monitor their continued effectiveness;
- ✓ Implementing those measures as recommended by the internal/ external auditors, which, in their opinion, will enhance control at a reasonable cost; and
- ✓ Reporting to the Audit / Risk Committee on the risk process and resultant risk/ reward profiles.

#### **A1.4 Risk Champions**

- ✓ Responsibilities of the Risk Champions include amongst others:
  - The Risk Champions will assist the Chief Risk Officer with updating of risk reporting information; and
  - The Risk Champions will be the keys contact of the Chief Risk Officer at each department/ division.

#### **A1.5 Chief Risk Officer**

- ✓ The role of the Chief Risk Officer is to develop, communicate, coordinate and monitor the enterprise- wide risk management activities within the municipality.
- ✓ Although management may either appoint a Chief Risk Officer delegate the function to a current employee to assist in the execution of the risk management process, the accountability to the council and Municipal Manager remains with management and effective risk management is the responsibility of every employee. The risk management process does not, however, reside in any one individual or function but requires and inclusive team-based approach for effective application across the Municipality.
- ✓ The following are the responsibilities of the Chief Risk Officer:

- Assist the Audit / Risk Committee to fulfil its responsibilities in terms of its charter;
- Communicate with the Audit/ Risk Committee regarding the status of enterprise wide risk management;
- Takes overall responsibility for the common risk framework and coordinates the risk management activities across the municipality;
- Proposes on a methodology and framework for ERM for approval by the council and Municipal Manager;
- Undertakes a gap analysis of the Municipality's ERM process;
- Performs reviews of the Risk Management Process to improve existing process;
- 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;
- Develops systems to facilitate risk monitoring and risk improvement;
- Ensures that all risk categories are included in the assessment;
- Ensures that keys risk indicators are included in the risk register;
- Align the risk identified process with the Municipality's strategic objectives and integrated development plan;
- Agrees on system of risk quantification;
- Compiles a consolidated risk register on a quarterly basis;
- Formally reviews the occupational health, safety and environmental policies and practices;
- Creates mechanisms for identifying nodes of change;
- Consolidates all information pertaining to all risk functions, processes and activities;
- Provides input into the development and implementation of business continuity management plans;
- Transfers the knowledge in respect of an effective and sustainable process of risk identification, quantification and monitoring to management;
- Records the decisions regarding mitigation for every risk facing the municipality in the risk registers;
- Benchmarks the performance of the risk management process to the risk management processes adopted by other Municipality's both locally and abroad;
- Implements a formalised risk information system;

- Ensures that risk management training is conducted at appropriate levels within the municipality to inculcate a risk management culture;
- Communicates the risk strategy to all management levels and to employees; and
- Ensures that the necessary risk management documentation is developed in respect of the risk management process.

**A.2 Reporting requirements****A.2.1 Internal reporting processes for risk information**

- ✓ A tired structure of risk reporting should be followed and should include amongst others:
  - Each department / division is required to submit the Top 10 strategic risk register to the Risk Management Committee on a quarterly basis;
  - The Risk Management Committee is required to submit the top strategic risks (all identified risks with unacceptable risk exposures) and the top 5 risks per department / division to the Audit Committee on a quarterly basis. These strategic risks should include residual risk status and actions to be taken to further mitigate the risk consequences; and
  - The Chief Risk Officer will assist in the execution of the risk reporting process.

**A2.1 The frequency of risk monitoring**

- ✓ The risk registers should indicate how often a key risk should be monitored and reviewed. In the realm of financial risk the exposures may be monitored on a continual basis. Other risks such as regulatory change may only need formal review once a year. For the majority of business risks it is important to choose monitoring periods that span between 1- 3 months.
- ✓ Risks with an unknown pattern and risks that are new to the Municipality, should receive more frequent attention. The results of monitoring processes will be documented in a defined format.

**A2.2 Normal Management reporting processes**

- ✓ Normal Management processes such as monthly management Accounts, Safety Health Environment and Quality (SHEQ), and Other similar reporting that discuss risk and control issues should Still be reported on in the current prescribed manner.

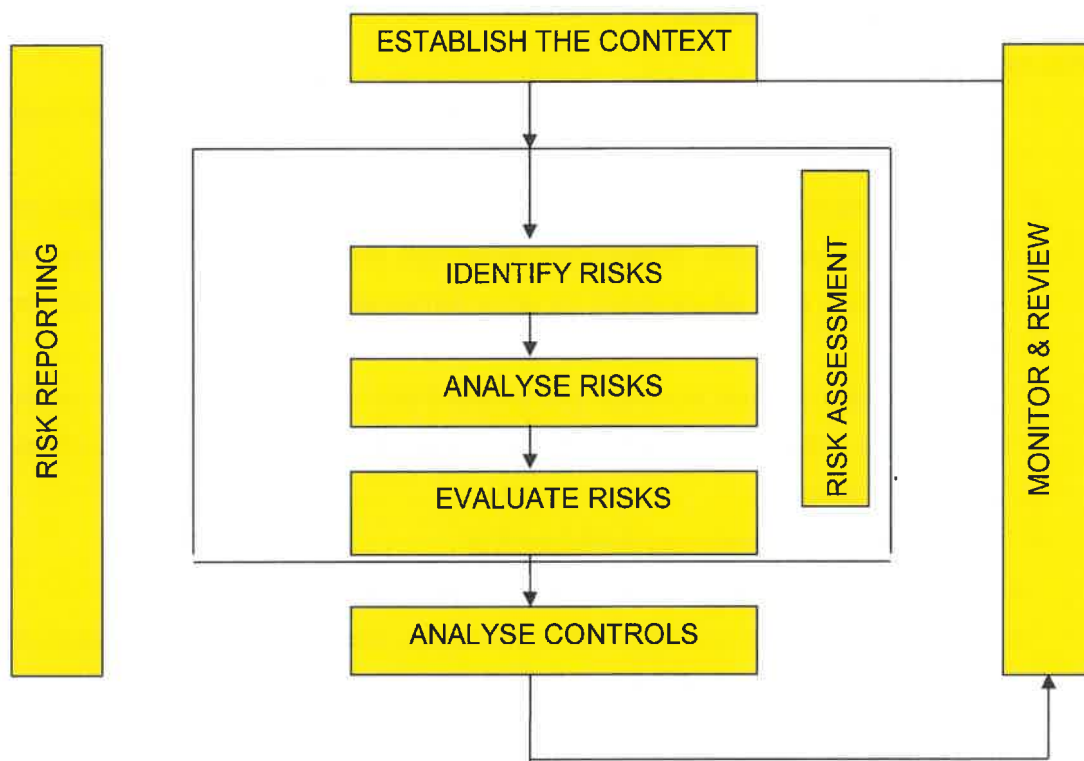
**A2.3 Incident reports will be generated for unacceptable losses**

- ✓ This is an internal management function and will form part of the enterprise risk management framework. The destination of incident reports will be determined by the nature of the loss, but losses that originate from risks contained in the key risk registers should always be elevated to higher levels of management. Variance reports are

incorporated into routine management reporting processes. The inclusion of risk-related variances can be incorporated.

### **A3 Risk Assessments**

- ✓ Once a year, the CHDM will undertake a through reassessment of its risks at all levels using the following methodology:
- ✓ A risk assessment is the process by which the risk to be managed in an organisation are identified. Comprehensive identification using well structured systematic process is critical, because risks not identified are never further analysed and potentially are not managed.
- ✓ There are many different processes and methodologies in use by which risks can be identified i.e. risk workshops, interviews, questionnaires and surveys, research, control and risk assessments.
- ✓ At a minimum a risk assessment should result in:
  - Identification of relevant risks towards the achievement of objectives; and
  - The prioritisation of risk, which often necessitates estimating the timing, magnitude and probability of risk occurrence.
- ✓ The first part of carrying out a structured risk assessment is to profile the key building blocks of the Municipality. This will highlight dependencies, critical parts of the business and start to pinpoint vulnerabilities.
- ✓ The CHDM Risk Management Process is depicted below:



Set out below is a discussion on each element of the process

### A3.1 Establish the context

- ✓ The risk assessment processes begin with the profiling of the Municipality context. The outputs of this task must be documented and should include amongst others:
  - Business environment;
  - Total size of the core/ support services;
  - Key players;
  - Stakeholder's driving forces.
- ✓ Establishing the context is a pre requisite to the process of identifying risks in any given situation. Establishing the context is about placing a boundary around the subject matter that is being subjected to the risk management process. Contexts can be entire businesses, functions, departments, processes, projects, activities, specific business decisions that must be taken and the like. In setting the context, consideration must be given to:
  - the business objectives of the subject matter that is being covered;
  - the purpose, scope and depth of the risk management process to be applied;
  - the time horizon to be covered for risk identification purposes;

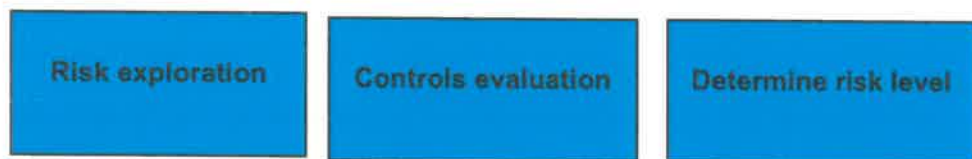
- establishing the roles and responsibilities of the various people and
- parts of the organization participating in the risk management process;
- subdividing the subject matter into a set of elements in order to provide a logical framework that helps ensure that significant risks are not overlooked; and
- deciding the criteria against which risks will be evaluated

### A.3.2 Identify risks

- ✓ The purpose of risk identification is to identify all risks within the context established above. The aim is to generate a comprehensive list of risks that might have an impact on the achievement of each of the objectives identified in the context phase above.
- ✓ These events might prevent, delay or enhance the achievement of those objectives.
- ✓ In this regard, risks identified should not only be events that could hinder/threaten the achievement of objectives but also events that could have a positive effect on the achievement of objectives.
- ✓ Comprehensive identification using a well structured, systematic process and involving the right people is critical, **because a risk not identified at this stage may be excluded from further analysis.** Risk identification should include all risks irrespective of whether or not they are under the control of the municipality.

### A3.3 Analyse risks

- ✓ This phase covers the following elements:



Each of these elements is dealt with below.

- ✓ **risk exploration** (understanding the causes and consequences of identified risks)  
The purpose of risk exploration is to understand the causes and consequences of the identified risks. In the absence of a precise understanding of the cause of a risk one is unable to design effective **preventative** control measures to manage the cause. Similarly, in the absence of a precise understanding of the nature of the consequences of a risk one is unable to accurately measure the impact that the risk may have nor implement effective **corrective** control measures to manage the impact.

✓ **controls evaluation** (evaluating existing risk treatment controls)

This involves obtaining an understanding of the existing preventive and corrective controls currently in place to treat the risk together with the operating effectiveness of those controls. This information is vital for accurately assessing the residual risk level which is covered below.

✓ **determine risk level** (measuring the impact and likelihood levels of identified risks)

Risk assessment involves assessing the magnitude of the consequences of a risk, should it occur, and the likelihood of the event occurring. This consequence and likelihood is combined to produce a risk level. The risk assessment tool set out in Annexure B [still to be finalized] should be used to facilitate this process. Based on this tool, any given risk will be assessed at one of [6] levels.

✓ Two types of risk assessments could be performed, namely qualitative and quantitative.

✓ Qualitative assessments are used where risks do not lend themselves to quantification or when either sufficient credible data required for a quantitative assessment is not practically available or a quantitative assessment is not cost-effective. Qualitative assessments are typically based on subjective views of individuals. The following are some of the information sources when performing a qualitative assessment:

- Past incidents and experience;
- Published literature;
- Consultations with stakeholders; and
- Expert judgements

✓ Quantitative techniques involve the use of mathematical models, bring more precision and are typically used in more complex and sophisticated activities to supplement qualitative techniques.

✓ It should be noted that qualitative assessments will suffice for the vast majority of risks.

✓ Risks are normally assessed at an inherent level and at a residual level. It is accepted, however, that in certain contexts the inherent risk assessment will not add value and that only a residual assessment is performed.

✓ The inherent assessment is an assessment of the level of risk before the evaluation of existing risk treatment controls have been considered.

✓ The residual risk assessment is an assessment of the level of risk after risk treatment controls have been evaluated.



**A3.4 Evaluate risks**

- ✓ The purpose of risk evaluation is to make decisions, based on the outcomes of risk analysis, about which risks need treatment as well as risk treatment priorities.
- ✓ Risks assessed as Level 1 risks will receive the highest priority, followed by levels 2 to 9 respectively. Individual risks or an aggregation of common risks at level [1 and 2] will generally be considered as beyond the CHDM risk tolerance level and therefore risks at these levels must be considered for further treatment.
- ✓ Each business unit and corporate function will need to set their own tolerance levels based on their unique circumstances. However, these tolerance levels will need to be aligned with the group tolerance levels.

**A3.5 Treat risks**

- ✓ Risk treatment involves identifying and evaluating the range of available options for treating a risk and the preparation and implementation of appropriate treatment plans.

**A3.5.1 Available options**

- ✓ Avoidance – Exiting the activities giving rise to the risk. Examples include:
  - disposing of a business or a component part
  - deciding not to proceed with the project/activity that gives rise to the risk
- ✓ Reduction – Action is taken to reduce the impact or likelihood, or both. Examples include:
  - establishing limits of authority;
  - introducing new internal control measures
- ✓ Sharing – Reducing risk likelihood or impact by transferring or sharing a portion of the risk with third parties. Examples include:
  - purchasing insurance products
  - engaging in hedging activities
- ✓ Retaining the risk - Some level of residual risk will always be retained after the implementation of risk treatment plans and management will need to decide whether the remaining risk level is acceptable or not.
- ✓ Selecting the most appropriate response or a combination of responses involves, amongst other things, balancing the costs of implementing the treatment against the benefits to be

derived. The cost of managing a risk must be commensurate with the benefits to be derived.

- ✓ Preparing and implementing risk treatment plans
- ✓ The purpose of risk treatment plans is to document how the chosen options will be implemented. The treatment plans should include:
  - proposed actions;
  - resource requirements;
  - responsibilities;
  - timing;
  - performance measures; and
  - reporting and monitoring requirements

#### **A3.6 Monitor and review**

- ✓ Any risk profile will change over time. Risk treatment plans that were once effective may become irrelevant; control activities may become less effective, or no longer be performed; business objectives may change or regulatory requirements may change.
- ✓ This can be due to the arrival of new personnel, changes in the business structure or direction, the introduction of new systems and processes or developments in the external environment.
- ✓ In the face of such changes, management needs to continually monitor the effective functioning of the risk management process. This monitoring should occur in the normal course of management activities.
- ✓ The following monitoring mechanisms should be implemented:

#### **A3.7 Monitoring of implementation of risk treatment plans.**

- ✓ Action plans to develop and implement risk treatment plans need to be monitored to ensure that the necessary plans are implemented on schedule and as intended.
- ✓ This monitoring process should be embedded within the normal day to day monitoring processes already in place within the business e.g. departmental meetings, management meetings, Exco meetings etc.
- ✓ Internal audit will also evaluate the status of action plans for significant risk exposures as part of their routine audits.

#### **A3.8 Monitoring of ongoing effectiveness of risk treatment controls**

- ✓ The effective operation of risk treatment controls must be evaluated on an on-going basis.



- ✓ Each functional area within the business will need to develop its own plans as to the frequency and scope of these reviews taking into account, inter alia, legal and regulatory requirements. These reviews may include management reviews, self-assessment reviews and third party reviews as appropriate. Internal audit will also perform an independent review of selected risk treatment controls.

#### **A3.9 Identification and assessment of new/ emerging risks**

- ✓ There is a need to regularly review risk registers to ensure that they remain relevant and complete. This applies to strategic, functional/departmental and process level risk registers.
- ✓ It is a group requirement that this review is formally done at least twice annually across all areas of the business. However, the occurrence of any one or more of the following events should trigger the need for an immediate review:
  - Changes in business strategy
  - Legal & regulatory changes
  - Restructuring of the business or departments or processes or major changes to people, processes and technology
  - Loss of key personnel
  - Significant control deficiencies identified by internal and/or external auditors
  - Incidences of fraud
  - Legal liabilities and challenges
  - Changes to business objectives
  - Changes to key performance indicators

#### **A3.10 Monitoring of the effectiveness of the risk management process as a whole**

- ✓ The efficacy of the entire risk management process needs to be reviewed on a periodic basis.
- ✓ The Internal Audit department will be responsible for performing such review and providing assurance that the risk management process has been applied appropriately across the organization and that all elements of the process are suitable and sufficient.

**A3.11 Risk reporting**

- ✓ The essence of risk reporting is that the right people must receive the right information at the right time.
- ✓ Risks at all levels must be reported internally (formally and informally) at different levels within the municipality. The municipality will need to develop its own reporting framework taking into account existing management reporting processes and legal and regulatory requirements.

**Please refer to the attached table to guide your risk assessment tables (Appendix B)**

**A.4 Control requirements**

- ✓ Every risk will have a number of controls, mitigations or interventions that have been designed to contain the potential impact or likelihood of the risk. These controls need to be identified and evaluated. They will form the basis of an assurance plan to the Council and Municipal Manager, and may be tested by the internal audit process or other independent means of evaluation.
- ✓ The following aspects of the control environment should be considered:

**A.4.1 Verify and evaluate the controls currently in place for the key risks**

- ✓ It is important that all of the existing controls for identified risks are in turn identified and evaluated. Such controls may take the form of policies, procedures, management activities and instructions. The controls must be evaluated in two essential ways.
- ✓ Firstly, an evaluation of the appropriateness and adequacy of the existing controls for the risk must be undertaken.
- ✓ Secondly, the performance of the existing controls must be evaluated.
- ✓ Desired levels of control effectiveness must be determined. The gap between existing control effectiveness and desired effectiveness must result in an action plan.

**A.4.2 Evaluate the strategic mitigations in place for key risk**

- ✓ A specific review of the Municipality's strategic position in the context of risk must be carried out. The Municipality's ability to liquidate its positions must be assessed. The degree of strategic flexibility in response to a risk event must be considered.
- ✓ The robustness of the strategy in the context of the risk assessment findings must be evaluated. Likely strategic responses to risk and their performance are aspects that must

be fully understood. This process may require separate processes of scenario planning around strategic intent.

**A.4.3 Identify and evaluate the post-event measures in place for response to risk**

- ✓ The ability of the Municipality to respond to a risk event must be evaluated in detail, and the result recorded as a control in the register. Post- event measures include crisis management capabilities, emergency planning, and business continuity plans contingency planning. These responses should incorporate planned measures that cover the basic types of managerial response, such as finance, people, technology and customers.
- ✓ The criteria for performance will include speed response, comprehensiveness of response and degree of readiness.

**A.4.4 Review the financial risk protection measures in place to respond to the consequences of risk events.**

- ✓ The Municipality's risk finance measures include an insurance portfolio, self- insurance policies and funds , financial provisions, and operating budgets for the funding of losses or variances. Management must compare the results of risk assessment processes with the current risk finance arrangements.
- ✓ This will highlight the net financial effect of risk events upon the Municipality. It will also influence the decisions relating to the structure of risk finance. Certain risks may be deemed intolerable and may require a self-insurance facility or provision to manage the risk. Low risk may lead to greater risk retention limits.

**A.4.5 Verify the levels of compliance with regulatory requirements**

- ✓ Adherence to legislation and regulatory frameworks is not negotiable. It is essential that risk related requirements are incorporated into control frameworks. Relevant requirements must be verified. It is the responsibility of management to build compliance processes around these requirements. Any material breaches must be reported as deemed appropriate through the structures of reporting developed for this.
- ✓ Having ascertained the suitability, appropriateness and effectiveness of risk controls' management will decide upon further action plans for actual and possible risks.

**A.4.6 Take decisions on the acceptability of identified risk and controls**

- ✓ A district and conscious process of decision-making for each key risk must be made taking into consideration the risk tolerance levels for the entity. The decisions made for every key risk must be recorded. Decision options include the possibility to tolerate/ accept, treat/ reduce, transfer/ share or terminate/ avoid risks. The potential impact upon

strategic and operational objectives will influence the outcomes of decision-making processes.

- ✓ When taking a decision care should be taken when taking any action that could:
  - Results in serious injury or fatality;
  - Result in significant harm to the environment;
  - Impact on the reputation of the municipality;
  - Impact on the performance of the municipality;
  - Result in a fine by regulatory authorities; and or
  - Undermine the independent and objective review of activities.
- ✓ Possible prohibited risk areas include the following
  - Changes that could result in regulatory breach;
  - Fraud and corruption;
  - Theft of the Municipality property; and
  - Access to the property by unauthorised personnel,Any of the above would constitute unacceptable risk.

#### **A.4.7 Document your action plans for risk mitigation**

- ✓ The action for improving or changing risk mitigation measures must be documented in the risk registers.
- ✓ It is important that a process of tracking progress made with risk interventions is followed. Such a process provides a trail of information that may prove to be necessary at some future stage.
- ✓ Good governance practices would expect this. Because risk is often a process of perception, misunderstandings can arise where no record is kept.
- ✓ The action plans must be unambiguous and provide target dates and names of responsible persons. A process of follow – through must be used.

#### **A.4.8 Use the outputs of risk assessments for budgeting and capital allocation processes.**

- ✓ It is important that risk information is factored into budgeting decisions. The variability of budgeted targets must be considered, and one must assume that the risks associated with key Municipality objectives in the budgets have been evaluated as part of risk assessment process.
- ✓ Considerations around budgeting should also be put in the context of cost –of- risk evaluation.

**A.5 Governance requirements****A.5.1 Establish an organisational framework of assurance for key risks and controls.**

- ✓ A framework of assurance must be developed for your risks. Key players in the Municipality will combine to provide assurance to the Council and Municipal Manager that risks are being appropriately managed.
- ✓ This combined approach to assurance normally involves external, auditors, internal auditor and management working together through the audit / risk committee.
- ✓ Other experts should be chosen to provide assurance regarding specialised categories of risk, such as environment management. The assurance framework must be formalised and should incorporate appropriate reporting processes.

**A.5.2 Internal audit provides assurance that management processes are adequate to identify and monitor significant risks**

- ✓ The internal audit function's evaluation must examine the techniques used to identify risk. The categories and the scope of risk assessments should be considered. The methodologies used to extract risk information must be reviewed. A consensus view of the Municipality's risk profile should be apparent. Monitoring processes should be wholly aligned with the results of risk assessments.
- ✓ The internal audit function should particularly seek evidence that the processes of risk identification are dynamic and continuous, rather than attempts to comply with governance expectations.

**A.5.3 The outputs of risk assessment are used to direct the internal audit plans**

- ✓ Internal audit plans depend greatly on the outputs of risk assessments. Risks identified from risk assessment must be incorporated into internal audit plans according to management and Audit Committee priorities. The risk assessment process is useful for internal audit staff because it provides the necessary priorities regarding risk as opposed to using standardised audit sheets.
- ✓ The audit activities will focus on adherence to controls for the key risks that have been identified. In addition, internal audit staff may direct management towards the need for better controls around key risks.

**A.5.4 Internal Audit provides an evaluation of risk management process**

- ✓ The internal auditors must verify that risk reports are credible and offer a balanced assessment of risks. It is vital that an enterprise- wide view of risk management is adopted by the municipality, and the Internal Audit will examine this.
- ✓ The reliability of risk information, particularly the function regarding controls, should be scrutinised by the Internal Audit Function.
- ✓ The Internal Audit Function should work with specialist providers of assurance where necessary.

**A.5.5 Internal audit provides objective confirmation that the Council and Municipal Manager receives the right quality of assurance and reliable information from management regarding risk**

- ✓ The Internal Audit Function plays a key role in coordinating the key players in the risk management process to provide assurance to the Council and Municipal Manager.
- ✓ The Internal Auditor is not normally the only provider of assurance.
  
- ✓ The function does, however, have an important role in evaluating the effectiveness of control systems.
- ✓ The process of assurance must of necessity involve the council, the Audit Committee, Municipal Manager, Management, External Auditors, Regulators and the Internal Audit Function.

**A.5.6 Safety, Health, Environment and Quality Management**

- ✓ A formal safety management programme is essential for our business. The risks will vary according to each operational site, but the principles of risk management will always apply, i.e. risk identification, risk assessment, formal action plans for mitigation, monitoring, reporting and assurance.
- ✓ The scope of your safety management programme should include administrative aspects, safety awareness and training, health, hygiene, electrical safety, physical safety, micro environmental exposures and legislative requirements.

**A.6 Common Language**

- ✓ Given that the enterprise risk management process will strive to integrate various participants and specialists from disparate risk professionals, it is vital that the process does not confuse all concerned by using disjointed terminology.
- ✓ Frequently used risk management terminology should be defined in such a way that it ensures different disciplines have a common interpretation of the terminology in question. (The secret is to keep it simple)



## 12. APPENDIX B- RATING TABLES

### Qualitative assessment of potential impact taking current controls into consideration

The following table is to be used to assist management in quantifying the potential that a risk exposure may have on the municipality

Score	Title	Description
5	<b>Catastrophic/ fundamental</b>	Disaster with the potential to significantly harm the business and is fundamental to the non-achievement of objectives.
4	<b>Critical</b>	Critical event which can be endured but which may have a prolonged negative impact and extensive consequences.
3	<b>Serious</b>	Major events which can be managed but requires additional resources and management effort.
2	<b>Significant</b>	Event which can be managed under normal operating conditions.
1	<b>Minor</b>	Not worth worrying about.

### Qualitative assessment of probability of occurrence taking current controls into consideration

The table below is to be used to assist management in quantifying the probability of specific risk occurring.

Score	Title	Description
5	<b>Almost Certain</b>	The event is expected to occur in most circumstances.
4	<b>Likely</b>	The event will probably occur in most circumstances.
3	<b>Moderate</b>	The event should occur at some time.
2	<b>Unlikely</b>	The event could occur at some time.
1	<b>Rare</b>	The event may occur in exceptional circumstances.

### Residual risk exposure

Residual risk is the product of impact and likelihood. The risk appetite for organisation level residual risk is as follows

Score	Title	Description
<b>From 15 to 25</b>	<b>Unacceptable</b>	Take action to reduce risk with highest priority, accounting officer and executive authority attention
<b>10 to 14</b>	<b>Cautionary</b>	Take action to reduce risk, inform senior management
<b>1 to 9</b>	<b>Acceptable</b>	No risk reduction- control, monitor, inform management

### **13. APPENDIX C- RISK CATEGORIES**

The following are some of the risk categories:

<b>Processes</b>
<ul style="list-style-type: none"><li>▪ Fraud and Theft</li><li>▪ Finance.</li><li>▪ Engineering.</li><li>▪ Information technology.</li><li>▪ Health and community services</li><li>▪ Disaster management.</li><li>▪ Corporate services (human resources and administration).</li><li>▪ Town planning.</li><li>▪ LED.</li><li>▪</li><li>▪ Communications.</li><li>▪ Corporate governance</li><li>▪ Regulatory/ statutory requirements.</li><li>▪ Local community and local municipal stakeholders.</li></ul>

#### 14. EFFECTIVE DATE

The effective date of this policy, or any amendments thereto, shall be the date of its adoption by Council.

This policy takes effect on the 14 of December 2022.

Policy adopted on the Chris Hani Municipality council meeting, dated 14 December 2022.

Council Resolution no. C1182

Signed by Municipal Manager:

Mr. G. Mashiyi

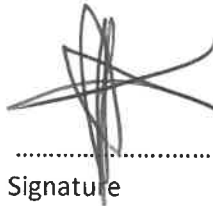


Signature

Date

Signed Council Speaker:

Cllr J. Cengani



Signature

Date

