MUTALE MUNICIPALITY

RISK MANAGEMENT STRATEGY
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1. DEFINITIONS

**Champion** – A risk Management Champion will ideally be a Risk Management Officer wherein a Risk Management Unit exists in an organization. The choice of the champion is management decision and can be from a different business unit provided the individual is well conversant with risk management principles & processes. Ideally this individual should be able to promote benefits associated with risk management, educate and create awareness amongst organization staff and management.

The desired outcome of having a risk management champion should be reflected in the actions and attitudes of those responsible for managing the organization’s risks.

**Legislative and Regulatory Compliance** – The assurance unit/Internal audit is usually tasked with the responsibility to ensure that the organization conforms to the laws, regulations, policies and procedures that the entity is compelled to adhere to.

**Control** – Actions taken by management, EXCO, Council and other organizations’ officials to manage risks to ensure the organizations attainment of it’s goals, and objectives as set-out in the strategic plan, which are linked to the mission, vision and values. These are activities that are embedded within an organizations process to ensure seamless achievement of objectives by providing a platform for smooth operational performance. In essence controls are there to ensure a reasonable assurance that the organizations goals and objectives will be met.

**Criteria** – A matrix of standards or performance indicators against which enterprise risk management can be benchmarked and measured to gauge the level of effectiveness. The COSO framework provides eight risk management elements which the organization can benchmark or apply in assessing the effectiveness of it’s risk management system.

**Deficiency** – A condition within enterprise risk management worthy of attention that may represent a perceived, potential, or real shortcoming, or an opportunity to strengthen enterprise risk management to provide a greater likelihood that the entity’s objectives will be achieved.

**Enterprise-wide Risk Management (ERM)** – A structured, consistent and continuous process across the entire organisation which is designed to; identify, assess, develop action plans, reporting and monitor the risks which can compromise the attainment of an organization’s objectives and goals.
**Enterprise** – An organization of established for a particular purpose, regardless of its size and complexity of operations. This can be a non-governmental organization, government parastatals, and educational institutions e.t.c.

**Event** – An incident or occurrence, from sources internal or external to the organization which may hamper or reduce the likelihood of an organizations ability to attain its goals and objectives.

**Executive Management** – The members of the top management team i.e.: HOD, SGM’s, GM’s, CFO, CIO, and other members of Senior Management.

**Facilitating** – Working with a group (or individual) to make it easier for that group (or individual) to achieve the objectives that the group has agreed for the meeting or activity. This involves listening, challenging, observing, questioning and supporting the group and its members.

**Impact** - Result or effect of an event on the organisation. This can be measured in different contexts, e.g financial implication, legal implication, environmental effect e.t.c. It is advisable for an organization to adopt a measure of impact which can be uniform across the organization to facilitate consistency in reporting.

**Line Management** – All Senior Managers and Managers, overseeing business units or Sub Units within the Department.

**Likelihood** – The possibility or chances of an event to materialize. There are usually qualitative characteristics that are used to reflect the level of likelihood such as low, medium and high depending. These qualitative characteristics can also be assigned numeric scores to reflect a quantitative measure such as frequency of percentage.

**Management Action/Responses** – Actions taken by management to mitigate identified risks, these could be actions taken to strengthen controls over affected processes or designed to mitigate the risk with no due consideration of any controls, assuming that no controls are in place or function at all.

**Management Process**- The series of action taken by management to run an entity. Enterprise risk management process is also part of and embedded within the risk management process.

**Operations**- Used with “objectives”: having to do with the effectiveness and efficiency of an entity’s activities, including performance and profitability goals, and safeguarding resources against loss.
**Opportunity** - The possibility or chances of an event to occur which will have a positive impact on the organization.

**Policy** – A policy is a formal document that outlines set of rules or processes to be followed in the running of a business. A policy is there to form the basis for procedures to be carried out in implementation.

**Procedure** – Action undertaken to drive the policy requirements.

**Reasonable assurance** – The concept that enterprise risk management, no matter how well designed and operates cannot provide a guarantee regarding achievement of an entity’s objectives.

**Reporting** – Internal and external reporting of financial and non-financial information.

**Residual Risk** – The remaining risk after management has taken action to alter the risk’s likelihood or impact and control effectiveness.

**Risk** – The possibility that an event will occur and adversely affect the achievement of objectives. The parameters applied in assessing risk are impact, likelihood or probability and control effectiveness.

**Risk Appetite** – The level of risk that is acceptable to EXCO, Council or management. This may be set in relation to the organization as a whole, for different groups of risks or at an individual risk level.

**Risk Management Framework** – The entire group or consolidated framework comprised of the structures, methodology, procedures, processes, measurement parameters and definitions that an organization has adopted to implement its risk management processes.

**Risk Management Processes** – Processes to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization’s objectives.

**Risk Maturity** – The extent to which a robust risk management approach has been adopted and applied, as planned, by management across the organization to identify, assess, decide on response and report on opportunities and threats that affect the achievement of the organization’s objectives.

**Risk Responses** – The means by which an organization elects to manage individual risks. The main categories are to tolerate the risk; to treat it by reducing its impact or likelihood; to transfer it to another organization or to terminate the activity creating it.
**Risk Tolerance** – The acceptable variation relative to the achievement of an objective.

**Stakeholders** – Parties that are affected by the entity, such as shareholders, communities in which the entity operates, employees, customers and suppliers

**Strategic** – High level goals and objectives that are aligned with and support the entity’s mission (vision)

**Uncertainty** – Inability to know in advance the exact likelihood or impact of future events.
2 INTRODUCTION & BACKGROUND

Municipal Finance Management Act stipulates in section 62 that the duty of an Accounting Officer (Municipal Manager) is to ensure that a Municipality has and maintains an effective, efficient and transparent system of financial and risk management and internal control.

It is therefore by implication a requirement that the Municipality should implement an Enterprise Risk Management that will ensure that the Municipality achieves its objectives as set-out in the Integrated Development Plan (IDP), over and above this, risk management exists to provide value for the stakeholders.

Management of every organization, including its executive committees are tasked with a duty to ensure that the organisation’s processes are functioning properly to ensure achievement of its strategic objectives and alignment to its mission and long-term visions. The attainment of this objective of fulfillment of this task is usually a challenge not only to Public Sector Institutions but to the Private Sector Organisations too.

To ensure that management of the organizations are better prepared and equipped to manage the aforementioned challenge and attain its mandate of steering an organization to achievement of its strategic objectives, one of management’s mandates is to establish and implement Enterprise Risk Management, whose main objective is to manage risks of the organisation to provide reasonable assurance that the organization will materially accomplish its objectives and ensure that government meet its service delivery mandate.

Risk management is now central to managing an organization as a whole, and forms the basis for compilations of operational audit plan which are risk based and as such is critical to organizational planning, organizing, directing and coordination of systems aimed at achieving organizational goals and objectives. It is therefore critical that an organization maps all risks that are facing the organization to the strategic risks and ensure that a risk drivers/owners are assigned to such risk for accountability and to ensure that the impact of identified risks are controlled to an acceptable level.

Risk management compels management at every level to focus on the organizations’ objectives of service delivery and, to manage the related risks and be prepared to respond positively to the needs and requirements of the public who are the beneficiaries of the organization’s services.

3 PURPOSE

The purpose of this Risk Management Strategy is to outline the requirements although non-exhaustive for Enterprise Risk Management with relevance to the
Municipality to ensure that the Executive Authority’s expectations in terms of Enterprise Risk Management, MFMA, PFMA and other Risk Management Guidelines and Frameworks such as the COSO Framework and KING II requirements. The strategy is also complemented with a policy that will serve as a framework for risk management requirements of Mutale Municipality.

4 Risk Management Policy

Mutale Municipality is committed to effective and efficient risk management for the attainment of the Municipality’s vision, mission, core values and objectives.

Mutale Municipality’s Council and executive authority commits the organization to an enterprise risk management process that is aligned to KING II guidelines and principles as well as the legislative requirements as stipulated in the Municipal Finance Management Act 56 of 2003 (MFAMA).

The risk management strategy has taken cognizance of the various Municipal processes, functions and roles and responsibilities of relevant officials that play a key role in enterprise risk management. A formal documented process on how to risk management should be conducted within the Mutale Municipality is outlined in this risk management strategy to ensure that risks identified whether financial, political, technological or legal are assessed, ranked, prioritized and managed with due consideration of control effectiveness.

The enterprise risk management processes are there to ensure that management efforts are focused on providing a support structure to enable the organization to achieve its objectives; comply with relevant and applicable legislations and most importantly to fulfil the expectation of all stakeholders like employees and the communities which the Municipality is viding service delivery to.

It is critical that the implementation of an enterprise risk management is effective and efficient in order to promote the realization of the Integrated Development Plan through sound and appropriate management of risks that would otherwise if unmanaged deter or obstruct the attainment of the IDP. Enterprise Risk Management provides a mechanism to pre-empt the risks facing the organization and allow the organization to develop responses to mitigate such risks should they occur. In essence the direct value obtained from risk management is the ability of an organization to make decisions in light of uncertainty.

Every employee or official of the Municipality has a key role to play in the successful implementation of an enterprise risk management and that the risk management strategy of the organization is upheld and adhered to in all respects.
4. RISK MANAGEMENT STRATEGY OBJECTIVES

The Risk Management Strategy objectives are to:

- Provide reasonable assurance that risks of the organizations are effectively managed;
- Develop a culture of risk management within the organization;
- Install a culture of Corporate Risk Management and risk ownership being practiced as everyone’s responsibility. Where possible ensure that individual performance contracts incorporate elements of risk management.
- Create the right awareness and understanding of risk at all levels of the municipality.
- Embed Corporate Risk Management in the conduct of business affairs.
- Comply with appropriate Corporate Risk Management practice in terms of corporate governance guidelines, MFMA legislative provisions and generally accepted risk management frameworks such as COSO.
- Engage risk and manage them well within the risk appetite of the municipality.
- Propel the organization to become a risk smart organization by ensuring that:
  - Risks are engaged in an informed manner, for instance identification of risk through a risk assessment workshop where all relevant management personnel and key officials are in attendance.
  - Proactive management if risks is effective; to avoid big surprise or mistakes and to ensure that upside business opportunities are identified and exploited.
- Embrace the recommendations of National treasury guidelines and other relevant risk management frameworks.
- Be able measure the effectiveness of Corporate Risk Management effort through the risk management process.

5 BENEFITS OF ENTERPRISE RISK MANAGEMENT

The international trend of recognized risk management approach today is to ‘identify, assess, re-assess and establish fallback’. This encourages the assignment of risks to individuals and personal ownership and management of a risk with its specific consequences and mitigations. The benefit of involving all individuals within an organization into the risk management process is to improve effectiveness and overall quantity and quality of operational information flowing through the organisation, its management and executive authority.

The gains obtained from an effective risk management process depends very much on the organization itself as issues vary from one organization to the other. Below is an outline of benefits that could be expected in an organisation where enterprise risk management is successfully implemented:
■ The ability to deliver improved performance
■ The improved probability of the achievement of objectives
■ Enhanced stakeholder value
■ Enhanced decision-making at executive level
■ Tool to support strategic and business planning
■ Promotion of continuous improvement
■ Effective and efficient use of resources
■ Reduction of shocks and unexpected surprises
■ Prompt identification of opportunities
■ Enhanced communication
■ Development of a Focussed Internal Audit Programme
■ Compliance with laws and regulations

5. RISK MANAGEMENT STRATEGY CONSIDERATIONS

The Municipality adopts a Strategy to implement Risk Management based on the following considerations, which are explained below in detail:

■ Risk Management Philosophy
■ Risk Management roles and responsibilities
■ Establishment of a Risk Management Committee and other oversight committees in its disposal.
■ Education and awareness on risk management
■ Risk Management Process
■ Establishment of a systematic process of risk monitoring (this can be a manual process in the absence of Risk Management Software available in the market that can automate the monitoring process with less human intervention). This is entirely a cost/benefit analysis choice to be made by the Municipality itself.
■ Develop an internal control framework guideline with the assistance of the assurance unit (Internal).
■ Independent assurance of the risk management process

6. RISK MANAGEMENT PHILOSOPHY

Enterprise Risk Management will provide the Municipality with tools and other capabilities to identify, assess and develop action plans or response strategies to manage the entire range of identified risks and ensure that the organization as a whole understands how to manage risk. This will provide the Municipality with the mechanisms to attain the following:

■ A portfolio of manageable risks
- Support structure to ensure proper and effective implementation of risk management processes.
- Proper direction of management’s efforts and enhanced results or achievements of objectives.
- Management accountability towards management of risks (Assignment of risk owners/drivers to specific risks within the risk register)
- Allocation of resources to priority issues according to prioritized risks
- Efficient and effective use of the Internal Audit Assurance unit in directing resources of the organisation through a risk based audit plan approach.

The development of a Risk Management Strategy will also ensure that the Municipal staff understand and are able to reflect conformity to risk management principles contained within the Risk Management Strategy. This behavioral pattern will be reflected in the actions as they pursue objectives of the municipality. The risk management philosophy to be adopted by staff will be entrenched in staff actions through considerations of the following principles:

- Consideration of the impact of the action in the context of risk management;
- Risk conscious decision making
- Consideration of the pervasive nature of individual unit’s action or decision on other business units or municipality as whole.
- Promotion of risk reporting through the relevant municipal risk management structures up to Executive Management Level.
- Maintaining a balance-score card or risks to give management a dashboard overview of Municipalities’ risks.
- Promotion of ownership and accountability for risk and risk management at the business unit or other point of influence level or such level as assigned in the risk register. Deferment of risk is not acceptable practice for effective implementation of risk management.
- Monitor compliance with policies, processes and procedures and the state of enterprise risk management through regular reporting in accordance with the designed risk management structures and relevant oversight committees.
- Maintain records of lessons learned and report on any significant risk management deficiencies or deviation to Municipalities risk management processes.
- Update the risk register on a regular basis and as and when the need arise depending on the urgency of importance of the identified risk considering the impact on the organization.
- Embed and embrace enterprise risk management as mandatory and not an option. If necessary ensure that individual performance contracts which are mapped to the organizations objectives incorporates an element of risk management.
- that enterprise risk management is mandatory, not optional
- Create and awareness to ensure that every staff of the municipality is aware of their roles and responsibility towards risk management.
7. CORPORATE RISK MANAGEMENT OVERVIEW

Fundamental to effective and efficient corporate governance is good Corporate Risk Management, which has become a focus in all corporate governance frameworks and public sector specific legislation like the Municipal Finance Management Act.

For Executive Authority and other relevant stakeholders to comprehend and appreciate management efforts towards risk management, it is crucial for them to have a detailed understanding of the prioritized risk profile of the municipality. This understanding should be supported by a principle that endorses the acceptance of risk in pursuit of municipality’s objectives, together with the risk responses, strategies or management action designed to mitigate those risks. Essentially, executive committee should set a tone at the top and reflect the level of commitment and interest to the risk management process through their involvement and active participation.

Corporate Risk Management should ensure proactive identification and understanding of factors or events, external or internal to the organisation that could impact the attainment of strategic and operational objectives of the municipality. Once these factors or events which would be classified as risks will then require appropriate management, monitoring and reporting. This can be achieved through various process which all leads to Good Corporate Risk Management, and these would be to either avoid, transfer, accept, mitigate or exploit the risk.

In carrying out Corporate Risk Management the Municipality adopts the internationally developed and accepted COSO Enterprise Risk Management Framework. This framework provides a structured approach to identifying and managing risk within risk appetite and tolerance levels. The key components of the framework are depicted in the diagram below and brief explanation of each is provided.
• **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. This may include but not limited to:

- Risk Management Policy
- Code of Conduct
- Code of Ethics
- Corporate Governance Guidelines
- Policy and Procedure
- Documented processes
- Vision and Mission Statements
- Values Statement

• **Objective Setting**

Objectives must exist before management can identify potential events affecting their achievement. The objectives contained in the IDP and Strategic Plans of the Municipality must be mapped to Key Priority Issues (KPI) and Key Performance Areas (KPA), Mission and Vision of the Municipality to ensure that the Municipality delivers on its mandate of service delivery. In essence the objective setting process is critical to be done during the development the Integrated Development Plan (IDP) of the Municipality.
Understanding of the objectives in the IDP is the initial step in the Enterprise Risk Management process. Without this understanding, risks that could prevent the achievement of objectives would not be identified completely. These objectives should be aligned throughout the Municipality to ensure that direction and focus of management at all levels is fully integrated. Objectives need to flow from a strategic level and cascade to the lower level of the organization to ensure maximum outcome in management of risks as reflected below.

- **Strategic**: Corporate objectives that are agreed by the Municipality;
- **Operational**: Objectives that are set by the divisions including both enablement and operating divisions.

**Risk Appetite**

The risk appetite is the amount of risk the Municipality is willing to accept and what risks it will not accept in pursuing its objectives. The risk appetite is expressed in terms of **inherent risk** which excluded the impact of management actions and control effectiveness or or **residual risk** which is considered after control effectiveness and management actions have been taken into account.

Inherent/Residual risk is the product of Impact and Likelihood and control effectiveness if they are considered or are in place. Inherent risk exposure is the product of Impact and Likelihood prior controls whereas Residual Risk exposure is after consideration of controls. The risk appetite for organization is as follows:

<table>
<thead>
<tr>
<th>Quantitative Indicator</th>
<th>Qualitative Indicator</th>
<th>Description of the indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 13 to 18</td>
<td>Unacceptable</td>
<td>Action should be taken to mitigate or reduce risk with highest ranking. The risk should be timely brought to EXCO and Municipal Manager’s attention.</td>
</tr>
<tr>
<td>From 7 to 12</td>
<td>Cautionary</td>
<td>Action to reduce risk, keep in the risk register for senior management information purposes, monitor risk for further developments.</td>
</tr>
<tr>
<td>From 1 to 6</td>
<td>Acceptable</td>
<td>No action should be taken, however the risk should be monitored to stay under control. Must be kept on risk register for management information.</td>
</tr>
</tbody>
</table>
• Event Identification

Internal and external events affecting achievement of an entity’s objectives must be identified, distinction should be made between effects of risks when it the risk materializes, actual risk and opportunities. Identified opportunities should be reverted back to IDP strategy and considered for iteration or treated in accordance to management’s discretion depending on whether the objective setting process has been completed or signed-off already.

External events would include events such as economic, natural phenomenon, political environment, sociological and technological whereas Internal events would encompass organizations personnel, processes, adopted information technology, culture and fixed infrastructure.

The Municipality has certain objectives i.e. goals it has set for itself to achieve such as goals and objectives in the IDP document. Risks are obstacles that can prevent the Municipality from achieving these objectives. Therefore, having clearly understood the business objectives at any level of the Municipality it is important to identify the risks that could prevent the achievement of the goals of the IDP.

Risks should be identified by relevant management, key official and relevant staff.

A proper outline of a risk should contain the following:

• A description of the risk and the related objective for that it threatens.
• The allocation of the risk to the relevant risk category (either business unit or key priority area).
• The impact of the risk on the objectives after taking cognizance of the control effectiveness.

Risk identification is not a once off process but a continuous process and should therefore be conducted at regular intervals as determined by management.

Changes to the existing risk profile should be identified and assessed on a regular basis by management and staff by using the following techniques listed below:

• Management meetings;
• Critical changes within communities
• Impact of socio economic changes
• Review of Financial and non-financial information;
• Scenario planning;
• Research of change in the sector;
• Legislative and regulatory amendments and
• Business process changes
Risk Assessment

Risk assessment should be preceded and incorporates a risk analysis taking into account the likelihood and impact, for the Municipality to draft the relevant responses to manage the identified risks. Prioritisation of assessed risks should take into account inherent and control effectiveness to determine the residual risk which is ultimately used to gauge the risk in accordance to the risk appetite framework of the municipality.

Inherent risk is the risk to the Municipality derived from the product of impact and likelihood before management actions or control assessment. Residual risk is the risk that remains after management has taken control effectiveness into considerations, residual risk can also be quantified after taking management’s actions into account, refer below for an outline of the measurement/assessments parameters.

Impact

Risks that have a potential to impact the Municipality’s strategic objectives should be rated and ranked in terms of the rating scales as reflected in table below. Impact of the risk should be assessed after taking into account current controls and actions to mitigate the risk.

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Detailed Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Catastrophic</td>
<td>Complete loss of operations, Municipality will not achieve its objectives.</td>
</tr>
<tr>
<td>4</td>
<td>Critical</td>
<td>Critical Impact on business and its operations, severe reduction in the ability of municipality to achieve its objectives.</td>
</tr>
<tr>
<td>3</td>
<td>Significant</td>
<td>Operations are significantly affected, loss of operations for a period between three to five months</td>
</tr>
<tr>
<td>2</td>
<td>Major</td>
<td>Major impact on business and core processes, disruptive event (Impact on operations – between one to three months</td>
</tr>
<tr>
<td>1</td>
<td>Minor</td>
<td>Minimal impact on business and core processes, no material impact on achievement of objectives.</td>
</tr>
</tbody>
</table>

Likelihood
Each risk should be rated in terms of the likelihood of the risk occurring as per scales reflected below in table below. Likelihood of the risk occurring should be assessed after taking into account current controls and actions to mitigate the risk.

<table>
<thead>
<tr>
<th>Rank/Score</th>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Certain</td>
<td>81% to 100%</td>
</tr>
<tr>
<td>4</td>
<td>Almost certain</td>
<td>61% to 80%</td>
</tr>
<tr>
<td>3</td>
<td>Likely</td>
<td>41% to 60%</td>
</tr>
<tr>
<td>2</td>
<td>Possible</td>
<td>21% to 40%</td>
</tr>
<tr>
<td>1</td>
<td>Unlikely</td>
<td>0% to 20%</td>
</tr>
</tbody>
</table>

- **Risk Response**

Management has to decide whether to accept the risk, mitigate the risk, transfer (insure or outsource) the risk, exploit the risk or avoid the risk altogether. The actions plans should always be considered with reference to a cost benefit analysis, it must be financially viable or feasible to carry out the action. The risk response should also take cognizance of the impact of control already in place and be developed to ensure that the residual risk is manageable to an acceptable level within the risk appetite of the organization.

**Illustrative Risk Responses by Response Type:**

<table>
<thead>
<tr>
<th>Avoid</th>
<th>Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Disposing of a certain business operations,</td>
<td></td>
</tr>
<tr>
<td>➢ Discontinuation of certain business processes.</td>
<td>➢ Outsourcing business processes</td>
</tr>
<tr>
<td>➢ Ensuring of certain business activities or assets.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mitigate</th>
<th>Exploit</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Monitoring of budgets</td>
<td>➢ Joint ventures/partnerships</td>
</tr>
<tr>
<td>➢ Monitoring of forecasts</td>
<td>➢ Business process re-engineering</td>
</tr>
<tr>
<td>➢ Delegations of authority</td>
<td></td>
</tr>
<tr>
<td>➢ Segregation of duties</td>
<td></td>
</tr>
</tbody>
</table>

The other risk response which is not on the table above is to accept the risk as is and not take any remedial action as impact in negligible. In other words the organization makes an informed decision to accept the risk.
• **Control Activities**

Policies and procedure are established and implanted to help ensure the risk responses are effectively carried out. This may include but not limited to the following:

- Human Resources Policy and Procedure
  - Recruitment
  - Staff allowances
  - Annual leave
  - Grievience
  - Disciplinary
- Segregation of Duties
- Delegation of Authority & Authorisation Limits
- Reconciliations
- Asset Management

• **Information and Communication**

Relevant information is identified, captured and communicated in accordance to time frames that enable people to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across and up the entity. Information is needed at all levels of an organization to identify, assess, and respond to risks, and to otherwise run the entity and achieve its objectives.

Technology plays a critical role in enabling the flow of information in an organization, including information directly relevant to enterprise risk management. Intergrated management information systems can also serve as electronic tools to manage information. The use of Risk Management Software can also fulfill this role.

• **Monitoring**

The entirety of ERM is monitored and relevant changes must be made where necessary. Monitoring is accomplished through ongoing management activities, separate evaluations or both.

Having identified the response strategy, continuous monitoring need to occur to ensure that the desired response strategy for a risk is implemented successfully. Monitoring is arguably the most important step of Corporate Risk Management as it is a step which, when strictly adhered to, provides early warning of where risks may materialize.
The following techniques should be used in Mutale Municipality to assist with monitoring:

- Identification and tracking of risk indicators that can act as an early warning system;
- Internal Audit can be used to provide assurance regarding the adequacy and effectiveness of mitigating controls;
- Progress on risk mitigation should be discussed on regular management meetings;
- Regular risk reporting to the Executive Authority.

In line with the abovementioned COSO framework it is proposed that the Municipality should consider adopting the following statement as its commitment to risk management.

8. RISK MANAGEMENT ROLES AND RESPONSIBILITIES

The ultimate responsibility of risk management lies with the Municipal Manager in terms of the Municipal Finance Management Act (MFMA). Through appropriate delegations, this responsibility is then assigned to risk management unit or internal audit in the absence of a dedicated risk management unit. Further to this the unit responsible for risk management as delegated the Accounting Officer of the Municipality or Municipal Manager will ensure that individual risk are assigned to the relevant business units and have been assigned a risk driver or risk owner to execute the relevant action for managing such risks. Below is an outline of the critical roles responsibilities:

**Municipal Manager’s responsibility**

Municipal Manager shall be responsible for the following:

- Development, communicating of management philosophy towards risk management that reflects a commitment attitude and approach which is aligned to the risk management process. This will also include providing support and encourage staff within the organization as a whole to take some level of risks within the confines of the established, documented and approved risk management processes.

- Ensuring that operations are carried in accordance with the developed risk management strategy and that an adequate system of internal controls is established, operates effectively and maintained for continued operation.

**Responsibility of Executive Management**

The Executive Management responsible for:
• Integrating risk management into planning, monitoring and reporting processes, and the daily management of programs and activities.
• Approving and periodically reviewing the risk management strategy and plan, including the approval of acceptable risk levels based upon ongoing risk assessment; and
• Creating culture where risk management is encouraged, practiced, rewarding and risk management infrastructure is provided.

Responsibility of Line Management

Management within each department, business unit or sub-business units are accountable for management of the risks to ensure attainment of objectives. Performance indicators for each business units should be designed with reference to the specific objectives of the business unit of sub-business units. These performance indicators should be a measurable, for instance specific targets being set e.t.c.

Management should benchmark their processes with global best practice, this will include taking accountability for the development, implementation of a risk management process that is embedded within the business unit’s operation and that a system of reporting and monitoring the risks exists. The compliance of the business unit to legislative and regulatory framework is also a task falling within the ambit of Line Management responsibility.

Management should build on and use existing municipal management structures and processes to embed Risk Management in their business units. Below is an outline of the Risk Officer’s responsibilities at an operational level of a business unit and Municipality as a whole:

• Ensuring that relevant employees have the competence to effect risk management processes. This can be done through education and training, and thereafter through proper recruitment and talent development;
• Creating risk management awareness to all staff within the business unit;
• Identifying all risks at a business section level;
• Assessing the likelihood of occurrence and related impact of these risks on the achievement of business objectives should they materialize.
• Developing a risk response, action plans or strategies that are best suited to effectively manage the risks to an acceptable level with due consideration to their residual risk after taking into account control effectiveness.
• Ensuring that there is adequate, efficient and effective management processes for risk management.
• Monitoring the risks on a regular basis to ensure that the risk register is up-to date.
• Consolidating the risks for all sections of the business units and ensuring that they are reviewed for accuracy and proper reflection of the risks profile of the unit as a whole.
• Regular reporting to the relevant stakeholders on status of risks and risk management process within the business unit.

**Responsibility of each official**

Each official is responsible for identifying and controlling risks relevant to the roles and position within the business unit; and reporting to senior on a regular basis as agreed upon or stipulated in the performance contract.

9. **ESTABLISHMENT OF A RISK MANAGEMENT COMMITTEE**

• The Risk Management Committee should be established to address the development and implementation of risk management as well as to fulfil the oversight role. The terms of reference should set-out the roles and responsibilities of the committee members and also outline the expected skills required of a committee member.
• Operational plans should be developed to comprehend the terms of reference to aid in the mapping out of operational activities of the committee, for instance meeting schedule, regular review of risk management processes, e.t.c.
• Training of employees appointed to the committee to ensure they are equipped with the required know-how, for them to contribute effectively and assist the committee in duly discharging its duties.
• The composition of the committee should ensure proper representation of the organization and its senior management.
• The selection of the committee members will be at the discretion of management.

10. **EDUCATION AND AWARENESS ON RISK MANAGEMENT**

• In order to effectively develop a culture of risk management, staff, managers and officials with risk management responsibilities need to be made aware of the enterprise risk management framework through education and awareness programmes.
• The Municipality must build risk management competencies across the organization to ensure successful implementation of enterprise risk management.

11. **RISK MANAGEMENT PROCESS**
• Corporate Risk Management should be performed at all levels of the Municipality i.e. at an Organizational (strategic) level, at a divisional and operation level. The overall flow of the Corporate Risk Management process will determine:

- A clear and unambiguous understanding of business objectives and purpose
- The risks, which can prevent the achievement of these objectives.
- The business environment and contributing factors that can cause the risks to occur.
- An evaluation of the inherent impact of the risks
- An evaluation of the residual impact based on the controls in place
- The control strategy, which is the response to the risk- This could be to Accept, Insure, Outsource, Avoid and/ or to Manage the risk- and the specific Corporate Risk Management processes (controls) to manage the risk. Cost benefit considerations will be a factor in deciding on the most suitable response.
- A post control evaluation of the risk to determine the likelihood of assurance of the risk and the residual risk exposure.
- Any enhancement to controls, if the residual exposure is still not acceptable to management.
- On going monitoring of the status of risks and business environment factors that may impact the risk.
- Ongoing reporting on the risk profile of the organization

13. DEVELOP AN INTERNAL CONTROL FRAMEWORK GUIDE

• Management has long sought ways to better control the enterprises they run. Internal controls are put in place to keep the organisation on course toward profitability goals and achievement of its mission, and to minimize surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations.

• Because internal control serves many important purposes, there are increasing calls for better internal control systems and report cards on them. Internal control is looked upon more and more as a solution to a variety of potential problems.

• King II Report on Corporate Governance issued in 2002 defines internal control as a process designed to provide reasonable assurance regarding the achievement of the organizational objectives with respect to:

- Effectiveness and efficiency of operations
- Safeguarding of the Company’s assets (including information)
Compliance with applicable laws, regulations and supervisory requirements;
Supporting business sustainability under normal as well as adverse operating conditions;
Reliability of reporting and
Behaving responsibly to stakeholders.

- Internal Controls are derived from the way in which management runs the Municipality and should be integrated into all business process at every level of the Department.

- An internal control framework tailored to the specific circumstances of the Municipality, should be developed to guide line management and introduce the Control Self Assessment (CSA) to support risk assessment, using the existing frameworks such as COS: Internal Control Framework.

14. DISCLOSURE OF RISKS

In order for risk management to work, it must be embedded into every day activities of the Municipality. It should be integrated into the reporting process. Risk should be part of every decision that is made, every objective that is set and every process that is designed. Risk management will be integrated into the reporting process of managers in strategic planning meetings of the office / departments that are held.

(a) Every manager shall during the strategic planning meetings of the office / department disclose:

- That he/she is accountable for the process of risk management and the systems of internal control which are regularly reviewed for effectiveness, and in establishing appropriate risk and control policies and communicating this throughout the office.

- That there is an on-going process for identifying, evaluating and managing the significant risks faced by the unit concerned.

- That there is an adequate and effective system of internal control in place to mitigate the significant risks faced by the unit concerned to an acceptable level.

- That there is a documented and tested process in place which will allow the Unit to continue its critical business process in the event of disastrous incident impacting on its activities. This is commonly known as business continuity plan and should cater for worst-case scenario.
(b) Where the Senior Business Unit manager cannot make any of the disclosures set out above he or she should state this fact and provide a suitable explanation.

15. INDEPENDENT ASSURANCE OF RISK MANAGEMENT PROCESS

The Municipality must ensure that an independent evaluation of the risk management process is conducted to verify reasonable assurance on its effectiveness. Internal Audit can be commissioned to conduct this evaluation or assessment provided the risk management process is not being implemented from the Internal Audit unit as in smaller organizations wherein it is not feasible to have a separate risk management unit. In such cases, other units can be tasked with the evaluation provided the terms of reference are clear and the unit possesses the relevant competencies to carry-out such an assessment or evaluation.

16. CONCLUSION

Risk Management is a great management tool to manage the reality of having to face uncertainties whilst conducting business and to devise a mechanism to anticipate these uncertainties in order to pro-actively implement management strategies that will ensure non-disruption of business operation and thereby ensure service delivery, achievement of organization strategic objectives, reduction of corruption activities, unethical behaviors and other activities contravening the corporate governance guidelines. Risk Management provides management in making risk conscious decisions for the benefit of the organization.

APPROVED/NOT APPROVED

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MUNICIPAL MANAGER DATE