



RISK MANAGEMENT STRATEGY

FOREWORD

Letsemeng Local Municipality is faced with internal and external factors and influences that make it uncertain whether and when they will achieve its objectives. The effect this uncertainty has on an organization's objectives is “**risk**”. All activities of an organization involve risk.

Risk Management Strategy is developed in line with the best practice namely: MFMA sec 62 (1) (c) (i) which state that Municipality must have effective and efficient and transparent systems of risk management, ISO 31000 and King III Report on corporate governance.

The development of this Risk Management is a systematic, timely and structured approach to risk management which contributes to efficiency and to consistent, comparable and reliable results.

Letsemeng Local Municipality has managed to implement phase one of the Risk Management phases in 2010/2011. The strategy will propel the fast tracking of phase two and three. The strategy will ensure readiness of the municipality for 2014 clean audit.

VISION

- To identify and mitigate risks ensuring sustainability and achievement of Letsemeng Local Municipality’s objectives.

OBJECTIVES

- To provide assurance to Council, Management, Risk Management Committee and Shared Audit and Performance Committee that risks are properly addressed.
- To provide appropriate learning opportunities for the municipality and its stakeholders.



- Integrating risk management to all business activities across the municipality.
- To improve operations, communication and reporting in the municipality.
- To ensure stakeholders confidence and trust.
- Ensure compliance and improved governance
- Improve loss prevention, incident management and minimize losses;
- Ensuring effective and efficient services are being rendered to the community.

STRATEGIES TO BE IMPLEMENTED

- Training and educating the Council on risk management and monthly reporting.
- Educating senior management and employees on risk management.
- Including risk management in the Key Performance Areas of all managers including municipal manager.
- Establish and train Risk Management Committees with quarterly meetings.
- Conducting risk assessments in three phases namely:
 - Strategic Risks from Integrated Development Plan.
 - Macro – operation from Service Delivery and Budgeting Implementation Plan.
 - Operational risks from the business units
- Monitoring and reporting to Council, Management, Risk Management and Shared Audit and Performance Committee.
- Risk owners must own their risks i.e. manager and officer.
- Projects and contracts will be separately assessed.
- Risk register, Risk Management Response Plan must be developed and updated regularly.

BENEFITS

- Ensuring that risks are kept within the council's tolerance level.
- Ensuring smooth operation which contributes to operation clean audit 2014 and beyond



REPORTING LINE FOR THE CRO

- Council and Shared Audit and Performance Committee
- Municipal Manager
- Risk Management Committee



RISK MANAGEMENT POLICY

Organisation : Letsemeng Local Municipality

Policy : Risk Management

Policy number : RMP101

Effective date : 1 July 2011

POLICY STATEMENT

The Letsemeng Local Municipality's Council and Management commit themselves to maximize the achievement of the municipality's goals and objectives by being pro-active and inclusive in managing risks. The effective management of risks will ensure sustainability and value creation.

REASONS FOR POLICY

- Clear roles and responsibilities in managing risks
- Standard methodologies and techniques for the management of risks
- A consistent view of risk profile across the municipality.
- A cultural awareness of risks.
- Integration of risk management environment within the municipality
- Promote good corporate governance in the municipality.

PARTIES TO THE POLICY

The following parties should know the policy:

- Council
- Municipal Manager
- Management and;
- Employee



SPONSOR:

Chief Risk Officer

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Chief Risk Officer

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OWNER OF THE POLICY

- Council

RESPONSIBILITIES:

COUNCIL

- Providing oversight and direction to the Municipal Manager on the risk management related strategy and policies;
- Having knowledge of the extent to which the municipal manager and management have established effective risk management in their respective units;
- Awareness of and concurring with the institution's risk appetite;
- Reviewing the institution's portfolio view of risks and considers it against the institution's risk tolerance;
- Influencing how strategy and objectives are established, institutional activities are structured, and risks are identified, assessed and acted upon;
- Requiring that management should have an established set of values by which every employee should abide by;
- Insist on the achievement of objectives, effective performance management and value for money.



MUNICIPAL MANAGER

- The municipal manager must develop and publish a risk management policy.
- Municipal manager is responsible for putting systems in place to ensure that risk management is properly implemented.
- Municipal manager has a responsibility to participate in the risk identification process in order to add value and ensure that all factors (internal and external to the institution) that could hinder the institution's objectives are taken into account during the process.
- The municipal manager should review the risk profile as assessed for its accuracy and approve thereof.
- The municipal manager can utilise the Risk Management Committee to perform their function with regards to the Risk Assessment
- The municipal manager should regularly review all risks that have exceeded tolerance level.

MANAGEMENT

- Acknowledges the "ownership" of risks within their functional areas and all responsibilities associated with managing such risks;
- Cascades risk management into their functional responsibilities;
- Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- Holds officials accountable for their specific risk management responsibilities;
- Maintains the functional risk profile within the institution's risk appetite;
- Provides reports on the functional risk management consistent with the institution's reporting protocols (including appearing before committees);
- Aligns the functional and institutional risk management methodologies and processes;
- Implements the directives of the municipal manager concerning risk management;
- Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions risk management;
- Maintains a harmonious working relationship with the Risk Champion and supports the Risk Champion in matters concerning the functions risk management;
- Keeps key functional risks at the forefront of the management agenda and devote personal attention in overseeing the management of these risks.



CHIEF RISK OFFICER

- Working with senior management to develop the overall enterprise risk management vision, risk management strategy, risk management policy, as well as risk appetite levels for approval by the municipal manager;
- Communicating the risk management policy, risk management strategy and risk management implementation plan to all stakeholders in the institution;
- Setting up of the risk management structure and risk management reporting lines within the institution;
- Continuously driving the risk management process towards best practice;
- Developing a common risk assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the municipal manager;
- Coordinating risk assessments within the institution department on a regular basis;
- Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, institutional restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously;
- Assisting management in developing and implementing risk responses for each identified material risk;
- Participating in the development of the combined assurance plan for the institution, together with internal audit and management;
- Ensuring effective information systems exist to facilitate overall risk management improvement within the institution;
- Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the institution;
- Advising management in the development of financing structures;
- Performing a PEST(EL) analysis to identify emerging risks facing the institution for further action and intervention;
- Collating and consolidating the results of the various assessments within the institution;
- Analysing the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends;
- Compiling the necessary reports to the Risk Management Committee;



- Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans, occupational health, safety and environmental policies and practices and disaster management plans.

INTERNAL AUDIT

Responsibilities of Internal Audit in risk management include:

- Reviewing the risk philosophy of the institution. This includes the risk management policy, risk management strategy, fraud prevention plan, risk management reporting lines, the values that have been developed for the institution;
- Reviewing the appropriateness of the risk tolerance levels set by the institution taking into consideration the risk profile of the institution;
- Providing assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems;
- Providing assurance over the institution's risk identification and assessment processes;
- Utilising the results of the risk assessment to develop long term and current year internal audit plans;
- Providing independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the institution;
- Providing independent assurance over the adequacy of the control environment. This includes providing assurance over the effectiveness of the internal controls implemented to mitigate the identified risks.

EMPLOYEES

- Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy;
- Acting in terms of the spirit and letter of the above;
- Applying the risk management process to their respective roles;
- Focusing upon identifying risks and reporting these to the relevant risk owner. Where possible and appropriate, manage these risks;
- Acting within the risk appetite and tolerance levels set by the business unit;
- Adhering to the code of conduct for the institution;
- Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility;



- Providing information and cooperation with other role players;
- Participation in risk identification and risk assessment within their business unit;
- Implementation of risk responses to address the identified risks;
- All personnel who suspect that some kind of fraud has been attempted or committed, to immediately report their suspicion to their respective departments;
- Should the employee wish to remain anonymous, they may contact the external fraud Hotline to report the matter.

SHARED AUDIT AND PERFORMANCE COMMITTEE

- Gains thorough understanding of the risk management policy, risk management strategy, risk management implementation plan, and fraud risk management policy of the institution to enable them to add value to the risk management process when making recommendations to improve the process;
- Reviews and critiques the risk appetite and recommends this for approval by the municipal manager;
- Reviews the completeness of the risk assessment process implemented by management to ensure that all possible categories of risks, both internal and external to the institution, have been identified during the risk assessment process. This includes an awareness of emerging risks pertaining to the institution.
- Reviews the risk profile and management action plans to address the risks;
- Reviews the adequacy of adapted risk responses;
- The audit committee must monitor the progress made with the management action plan;
- Reviews the progress made with regards to the implementation of the risk management strategy of the institution;
- Facilitates and monitors the coordination of all assurance activities implemented by the institution;
- Reviews and recommends any risk disclosures in the annual financial statements;
- Provides regular feedback to the municipal manager on the effectiveness of the risk management process implemented by the institution;
- Reviews the process implemented by Management in respect of fraud prevention and ensures that all fraud related incidents have been followed up appropriately;
- Reviews and ensures that the internal audit plans are aligned to the risk profile of the institution;
- Reviews the effectiveness of the internal audit assurance activities and recommends appropriate action to address any shortcomings.



RISK MANAGEMENT COMMITTEE

- Review the risk management policy and strategy and recommend for approval by the municipal manager;
- Review the risk appetite and tolerance and recommend for approval by the municipal manager;
- Review the institution's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- Evaluate the effectiveness of mitigating strategies to address the material risks of the Institution;
- Report to the municipal manager any material changes to the risk profile of the Institution;
- Review the fraud prevention policy and recommend for approval by the municipal manager;
- Evaluate the effectiveness of the implementation of the fraud prevention policy;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;
- Develop goals, objectives and key performance indicators for the Committee for approval by the municipal manager;
- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;
- Set out the nature, role, responsibility and authority of the risk management function within the Institution for approval by the municipal manager, and oversee the performance of the risk management function;
- Provide proper and timely reports to the municipal manager on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

COMMUNICATION AND REPORTING

Chief Risk Officer must report the progress in addressing identified risks on a monthly basis to the Council, municipal manager and management and quarterly report to the Risk Management and Shared Audit and Performance Committee. Policy will be communicated to all stakeholders.



MONITORING AND MEASUREMENT

The risk management efforts will be monitored and measured in accordance with the risk management framework of the municipality approved by Council and Management.

POLICY REVIEW

In order for the municipality to respond effectively to the changes in the environment, the policy will be reviewed annually.

RESOLVING CONFLICT OF INTEREST

Approved Risk Management Framework will have a common language to accommodate all risks management practitioners e.g. Project Management Unit, Finance etc.

APPROVED BY:

Chairperson: RMC

Date

Municipal Manager

Date

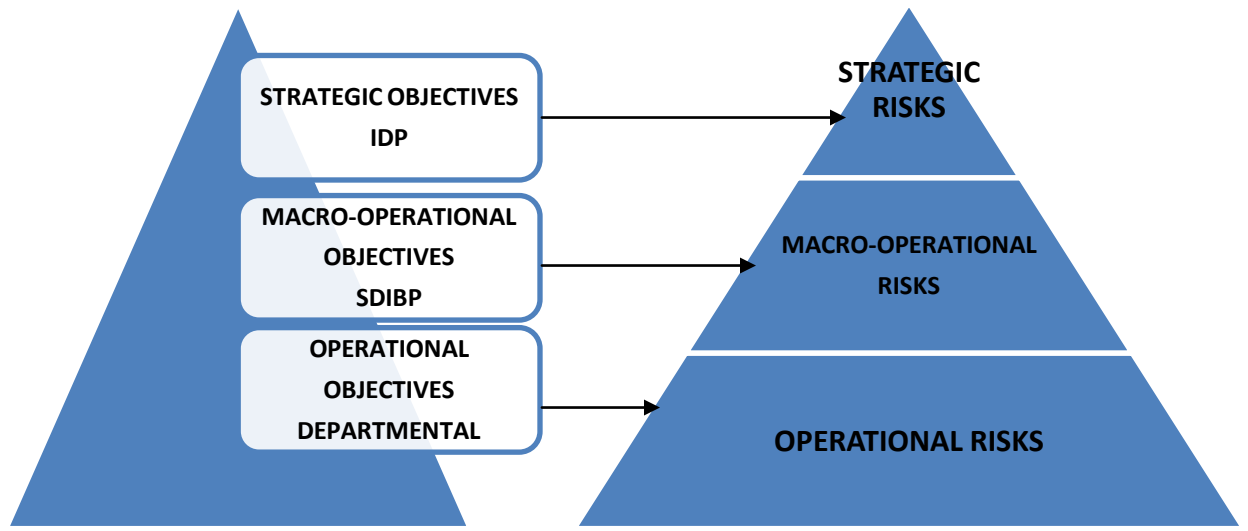
Council

Date



RISK MANAGEMENT FRAMEWORK

RISKS LEVELS



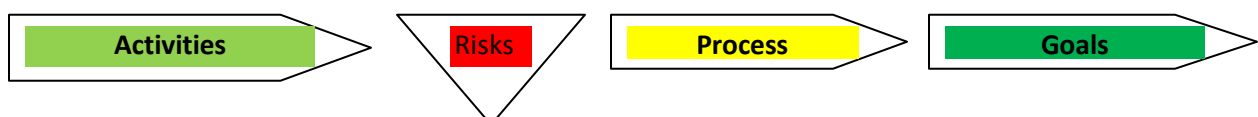
RISK MANAGEMENT PROCESS

Municipal context:

- Evaluate and understanding the municipality's strategic and operational objectives.
- Analyzing the processes within the municipality.
- SWOT analysis.
- Key drivers/ indicators.

Risk identification:

- Strategically identify 10 – 15 top risks for the municipality (IDP)
- Identify sources of risk in a goal and process.
- Identify areas of impacts and events and their causes.





Methods of risk identification

- Workshops and interviews;
- Questionnaires;
- Brainstorming and risk process flow analysis
- History or checklists

Risk analysis:

- Identify causes and sources of risks
- Analyse positive and negative consequences of risks
- Analyse the likelihood and impact of risks (levels)

Risk evaluation:

- Quantifying the risks in terms of likelihood and impact
- Measurement of risks using the likelihood and impact table
- Rating the risks and voting for strategic risks

LIKELIHOOD (OCCURRENCE):

High 3	Event occurs daily or weekly
Medium 2	Event occurs monthly
Low 1	Event occurs quarterly or yearly

IMPACT (CONSEQUENCES):

High 3	Cost increases by >5% or more
Medium 2	Cost is material more than 2% but less than 5% or Reputational
Low 1	Cost is fairly low (insignificant) i.e. less than <2%

Risk control:

- Reduce the risk
- Transfer the risk
- Accept the risk
- Eliminate risk



PROBABILITY (LIKELIHOOD X IMPACT)

High 6 - 9	Immediate escalation of risk to Senior Management for prioritized risk treatment Response plan. Weekly reviews of progress by Senior Management.
Medium 3 - 5	Escalation of risk to Line Management for discussions and appropriate response Response plan. Monthly monitoring of risk and progress the treatment plan
Low 1 - 2	Bi-Monthly monitoring of risk and progress. No immediate need to develop further treatment or response plan

GRAPH

Impact	3	3	6	9
	2	2	4	6
	1	1	2	3
	0	1 2 3		
Likelihood				

CONTROLS

4	Adequate and effective
3	Adequate
2	Partially adequate
1	Not adequate

Communication and reporting:

- Risk registers, Risk Response Plan
- Monthly and quarterly reports to the Council, Municipal manager, management and Committees.

Risk monitoring and evaluation:

- Refer to the Risk control above

Not addressed

In progress

Addressed



Risk review:

- Annually review risks to ascertain the adequacy in control measures implemented and identify any changes in the environment.

RISK APPETITE

Letsemeng Local Municipality is funded by public funds; every rand given to LLM must be used prudently.

Levels	Scale (R)	
1	<2%	Acceptable
2	Between 2 - 5	Unacceptable
3	>5%	Unacceptable

Letsemeng Local Municipality’s risk appetite is 2% of rand value and > 2% must be attended as a matter of urgency.

ATTACHMENTS

- Risk register template
- Risk Management Response Plan

APPROVED BY:

RMC Chairperson

Date

Municipal Manager

Date

Council

Date