RISK MANAGEMENT STRATEGY 2025/2026

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1. CONSTITUTION

The adoption of the Municipal Finance Management Act 56 of 2003 and the Treasury Regulations issued in terms of the Act infused the public service with Municipality culture, which must add to its emphasis on external sanctions and include stronger internal controls with anticipatory management systems to assess the abuse of power, which is the central principle of risk management. This is why risk management is central to managing the Municipality as a whole, and why risk management is integral to planning, organising, directing and coordinating systems aimed at achieving Municipality goals and objectives.

Risk Management provides a framework for Management to effectively deal with uncertainty, and associated risk and opportunity, and thereby enhance its capacity to build value.

The Municipality's Risk Management Strategy has been devised to focus on compliance with this regulatory framework and best practice prescriptions. A major challenge for any Municipality is to develop and implement strategies to deliver on mandates and policies decided on by the Executive Council.

2. THE NEED

The need to manage risk systematically applies to all directorates and to all functions and activities within a Thabo Mofutsanyana District Municipality.

2.1   An effective risk management strategy helps the Municipality to meet its objectives by ensuring that everyone has a clear understanding of:

2.1.1   the objectives of the Municipality

2.1.2   factors that could impact on the Municipality's ability to meet those objectives and;

2.1.3   the actions necessary to ensure objectives are met.

2.2   An effective Risk Management Strategy can:

2.2.1   Improve accountability by ensuring that risks are explicitly stated and understood by all parties, that the management of risks is monitored and reported on, and that action is taken based on the results.

2.2.2   Focus on planning to deal with factors that may impact on the objectives of the Municipality and provide an early warning signal,

2.2.3   Ensure opportunities are not missed and surprise costs don't arise.

3. OBJECTIVES

The objectives of the Risk Management Strategy are as follows:

3.1   To provide and maintain a working environment where everyone is following sound risk management practices and is held accountable for achieving results;

3.2   To provide with the framework on which the employees will utilise to implement risk management;

3.3   To provide the facilities and create a conducive working environment in ensuring that everyone has the capacity and resources to carry out his or her risk management responsibilities;

3.4   To ensure that risk management activities are fully integrated into the planning, monitoring and reporting processes and into the daily management of program activities.
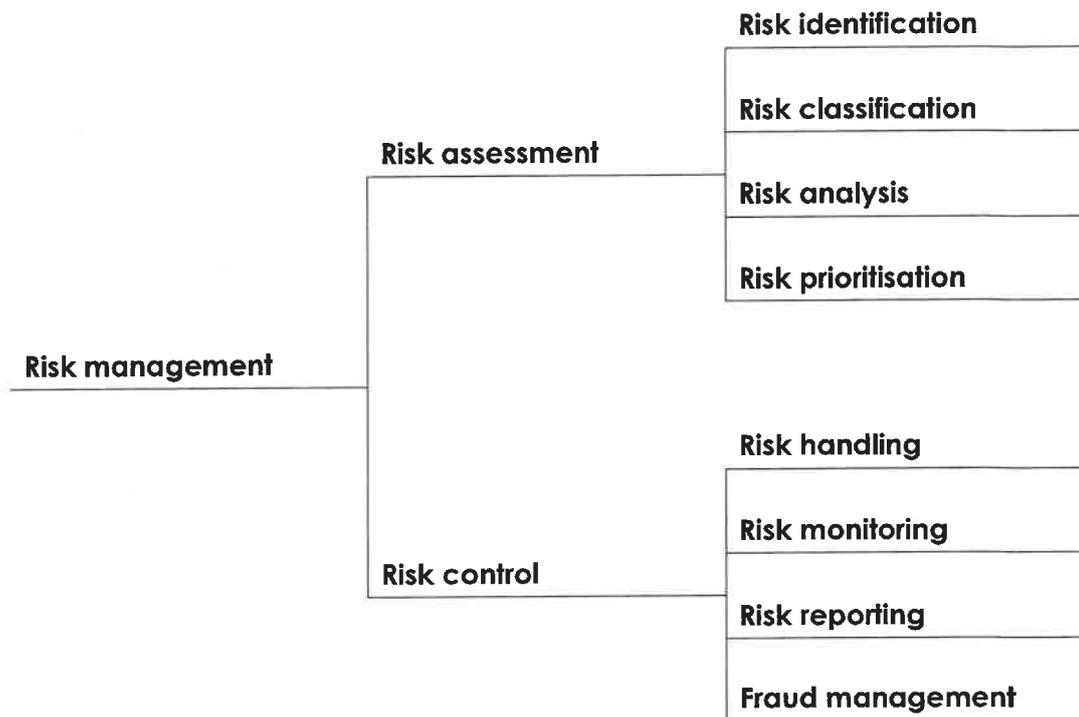
4. DEFINITIONS

Risks	Risk is the effect of uncertainty on objectives. (ISO 31000:2018) Any threat or event that has a reasonable chance of occurrence in the future, which could undermine the institution's pursuit of its goals and objectives. Risk Manifest as negative impacts on goals and objectives or as missed opportunities to enhance institutional performance. Stakeholders expect Municipality institutions to anticipate and manage risks in order to eliminate waste and inefficiency, reduce shocks and crises and to continuously improve capacity for delivering on their institutional mandates.
Risk Management	Risk management is a systematic and formalized process instituted by management to identify, assess, manage, and monitor risks. Risk management is a continuous, proactive and systematic process, effected by a Municipality's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the Municipality, designed to identify potential events that may affect the Municipality, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of Municipality objectives.
Enterprise Risk Management	Enterprise risk management (ERM) is the application of risk management throughout the Municipality rather than only in selected business areas or disciplines.
Risk Analysis	A process that involves identifying the most probable threats and analysing the related vulnerability of the Municipality to such threats. This includes risk assessment, risk characteristics, risk communication, risk management, and policy relating to risk.

Risk Assessment	The process concerned with determining the magnitude of risk exposure by assessing the likelihood of the risk materialising and the impact that it would have on the achievement of objectives.
Risk Identification	The process concerned with identifying events that produce risks that threaten the achievement of objectives
Inherent Risks	The probability of risk occurring or existing in the Municipality in the absence of any existing action to control or modify the circumstances
Residual Risk	The risk that remains after all efforts have been made to mitigate or to eliminate the risk that the municipality is exposed to
Strategic Risks	Any potential obstacles that may impact on the ability of the Municipality to achieve its strategic objectives.
Risk Response	The process concerned with determining how the Municipality will mitigate the risks it is confronted with, through consideration of alternatives such as risk avoidance, reduction, risk sharing or acceptance.
Monitor	The process of monitoring and assessing the presence and functioning of the various components overtime
Risk Owners	The Risk Owner is a person who supports the risk management process in a specific allocated component and ensures that the risk is managed and monitored over time
Risk Champions	The Risk Champion is a person with expertise to champion the risk management activities
Executive Authority:	The Member of the Executive Council of the Municipality who is accountable to the provincial legislature for the Municipality.
Risk Appetite	The amount of residual risk that the municipality is willing to accept
Risk Tolerance	The amount of risk that the municipality is capable of bearing (as opposed to the amount of risk it is willing to bear)

5. RISK MANAGEMENT FRAMEWORK

The risk management framework of the Municipality will be depicted as follows:

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                                                      Risk identification
                                                      ─────────────────────
                                                      Risk classification
                              Risk assessment         ─────────────────────
                          ┌──────────────────┐        Risk analysis
                          │                  │        ─────────────────────
                          │                  │        Risk prioritisation
Risk management ──────────┤                  │
                          │                  
                          │                  │        Risk handling
                          │                  │        ─────────────────────
                          │                  │        Risk monitoring
                              Risk control            ─────────────────────
                          └──────────────────┘        Risk reporting
                                                      ─────────────────────
                                                      Fraud management
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5.1 Risk Identification

Using a business-process approach, risks are identified in the Municipality. A business process approach involves identifying all the directorates or processes within a Municipality.

Risks will be identified on a directorate level by having structured interviews and / or workshops with key process staff.

The following definition of a risk will be used by the Municipality:

Risk is the effect of uncertainty on objectives. (ISO 31000:2018)

A risk has two attributes that must be articulated as follows:
- ❖ A cause (i.e. any event or action)
- ❖ An effect (i.e. impact on achievement of business objectives)

The three constituent elements of risk are:
- ❖ Inherent risk
- ❖ Control risk
- ❖ Detection risk

Every Municipality is subject to its own inherent and control risks and these risks should be catalogued for use in risk assessment.

The Municipality has its own unique inherent risks associated with its operations and management style. The risks are countered by installing controls. Since there is no way to reduce risk to zero, there will be some risk even after the best controls are installed (control risk). That degree of risk is control risk. A more detailed discussion of inherent risk, control risk and detection risk follows:

5.1.1   Inherent risk

Inherent risk is defined as per the definition above. It is evaluated by considering the degree of probability and potential size of an adverse impact on strategic objectives and other activities." With the background of the Municipality's broad outlook on risk, inherent risk also relates to the intrinsic susceptibility of operational and administrative activities to errors and/or fraud that could lead to the loss of Municipality resources or the non-achievement of Municipality objectives.

The importance of inherent risk evaluation is that it is an indicator of potential high-risk areas of the Municipality's operations that would require particular emphasis and it is also an essential part of the combined risk assessment for each process. The identification of all risks pertaining to a process is also the starting point of the risk assessment exercise.

Aspects that bear consideration when assessing the inherent risk are grouped into three categories, namely:
❖ The operational risk
❖ The management environment
❖ The accounting environment

Factors that could influence inherent risk under the three categories are:
❖ Operational risk
❖ The management environment
❖ The accounting environment

5.1.2   Operational risk

Some programmes / mega processes may have more inherent risk attached to it. Some objectives, outputs and outcomes may have higher priority than others. The objective's outputs and outcomes as well as the programme operations may also be subject to variable factors outside the Municipality's control that may make it more difficult to achieve the programme objectives. These variables outside the Municipality's control increase the overall risk profile of the programme / mega process and therefore also the inherent risk.

5.1.3   The management environment

The integrity of management and staff.

The potential for internal control override, and deception, is always present. An assessment of management and staff's integrity is difficult. If there were past incidences

of fraud or theft within a programme or sub process where personnel were involved and these personnel are still working there the possibility of a lack in integrity would be obvious. A wide range of reasons might tempt management to manipulate accounting records or misstate financial information.

5.1.4 Control Risk

Control risk is defined as "the risk that an error which could occur and which, individually or when aggregated with other errors, could be material to the achievement of Municipality's objectives, will not be prevented or detected on a timely basis by the internal controls." That is, a risk that the Municipality's controls (processes, procedures, etc) are insufficient to mitigate or detect errors or fraudulent activities.

Control risk arises simply because the accounting system lacks built-in internal controls to prevent inaccurate, incomplete and invalid transaction recording, or due to the intrinsic limitations of internal controls. These limitations are due to factors such as:

❖ The potential for management to override controls,
❖ Collusion circumventing the effectiveness of the segregation of duties;
❖ Human aspects such as misunderstanding of instructions, mistake make in judgment, carelessness, distraction or fatigue.

Control risk also arises when certain risks are simply not mitigated by any control activities.

5.1.5 Detection risk

Detection risk is defined as "the risk that management's procedures will fail to detect error which, individually or when aggregated with other errors, could be material to the financial information as a whole." This would also include errors that could be material to the Municipality as a whole.

5.2 Risk classification

In order to integrate risk management into other management processes, the terminology should be easily understandable by program managers. By developing a common Municipality risk language, program managers can talk with individuals in terms that everybody understands.

An important step in developing a common Municipality risk language is to classify risks identified in various categories.

The categories to be used by the Municipality are as follows:

Risk Type	Risk Category	Description
Internal	Human Resources	Risks that relate to the human resources of an organization. These risks can have an effect on an entity's human capital with regard to:

		❖ Integrity and honesty
		❖ Skills and competence
		❖ Retention
		❖ Motivation and morale
	Knowledge and information	Risks related to an organisation's management of knowledge and information Example: ❖ Availability of information ❖ Integrity of information and data ❖ Retention ❖ Safeguarding
	Litigation	Risk that an organisation might suffer losses due to litigation and lawsuits against it. Losses from litigation can emanate from: ❖ Claims by employees, the public, service providers and other third parties. ❖ Failure by an organisation to exercise certain rights that are to its advantage
	Financial and Reporting	Risks encompassing the entire scope of general financial management. Potential factors to consider include: ❖ Cash flow adequacy and management ❖ Financial losses ❖ Wasteful and fruitless expenditure ❖ Budget allocations ❖ Financial statement integrity ❖ Revenue collection ❖ Increasing operational expenditure ❖ Misappropriation of funds ❖ Payment of third parties within prescribed period

	Regulatory/Compliance	Risks related to the compliance requirements that municipality has to meet. Aspects to consider in this regard are: ❖ Failure to monitor or enforce compliance ❖ Monitoring and enforcement mechanisms. ❖ Consequences of non-compliance; and ❖ Fines and penalties paid.
	Project Management/Service Delivery	Risk associated with all aspects of projects and services which can bring distraction or reduction of value to the municipality
	Health and safety	Risks related to occupational health and safety issues and concerns (e.g., deaths and injuries on duty, accessibility of facilities to persons with disabilities, etc.)
	Information technology and communication	The risk that relates specifically to an organization's IT objectives, infrastructure and requirements. Relevant aspects include: ❖ Security concerns ❖ Technology availability (uptime) ❖ Technology effectiveness ❖ Hardware obsolescence ❖ Changes in technology
	Business continuity	Risk resulting in widespread and lengthy in continuity of service delivery.
External	**Environmental/Social**	Risks related to the municipality's social environment. Possible factors to consider include: ❖ Unemployment ❖ Migration of workers ❖ Service delivery protests
	Political	Risks emanating from political factors and decisions that have an impact on the

		municipality's mandate and operations. Possible factors to consider include: ❖ Political unrest ❖ Local, Provincial and National elections ❖ Changes in office bearers
	Economical	Risks related to the municipality's economic environment. Factors to consider include: ❖ Inflation ❖ Foreign exchange fluctuations ❖ Interest rates
	Reputational	Factors that could result in the tarnishing of municipality's reputation, public perception and image.
	Legal and compliance	Risks related to the municipality's' legislative environment e.g., changes in legislation, conflicting legislation.
	Business continuity	Risks related to municipality's preparedness or absence thereto to disasters that could impact the normal functioning of the municipality e.g., natural disasters, act of terrorism etc. This would lead to the disruption of processes and service delivery and could include the possible disruption of operations at the onset of a crisis to the resumption of critical activities. Factors to consider include: ❖ Disaster management procedures. ❖ Contingency planning.

5.3 Risk analysis/assessment

Risk analysis allows the Municipality to consider how potential risks might affect the achievement of objectives. Management assesses events from two perspectives: likelihood and impact. Likelihood represents the possibility that a given event will occur, while impact represents the effect should it occur.

The following tables reflect the rating criteria that will be used by the Municipality:

Table 1: Risk Rating Matrix:

High	15-25
Medium	5-14
Low	1-4

Table 1: Impact Rating Risk Model

Rating	Impact assessment	Description
5	Critical	Negative outcomes or missed opportunities that are of **critical importance or significant impact** to the achievement of objectives
4	Major	Negative outcomes or missed opportunities that are likely to have a relatively **substantial or high impact** on the ability to meet objectives
3	Moderate	Negative outcomes or missed opportunities that are likely to have a relatively **moderate impact** on the ability to meet objectives
2	Minor	Negative outcomes or missed opportunities that are likely to have a relatively **low impact** on the ability to meet objectives
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a **negligible impact** on the ability to meet objectives

Table 2: Likelihood Rating Risk Model

Rating	Likelihood assessment	Description
5	Common	The risk is already occurring or is likely to occur more than once within the next 12 months. **Immediate action required**
4	Likely	The risk could easily occur and is likely to occur at least once within the next 12 months. **Management attention needed**
3	Moderate	There is an above average chance that the risk will occur at least once in the next 3 years. **Management attention needed**
2	Unlikely	The risk occurs infrequently and is unlikely to occur within the next three years. **Management responsibilities must be specified**
1	Rare	The risk is inconceivable but is only likely to occur in extreme circumstances. **Risks to be managed by routine procedures**

Risk mapping that municipality will use to plot risks:

LIKEHOOD	Almost Certain	5	10	15	20	25
	Likely	4	8	12	16	20
	Moderate	3	6	9	12	15
	Unlikely	2	4	6	8	10
	Rare	1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Critical
		IMPACT				

RISK EXPOSURE (Impact X Likelihood) AND REFER TO RISK MAPPING ABOVE:

Risk rating	Inherent risk magnitude	Inherent Response	Residual Response
15 – 25	High	Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk	Unacceptable level of residual risk – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation.
5 – 14	Medium	Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention required to achieve an acceptable level of residual risk	Unacceptable level of residual risk – Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or a more emphasis on proper implementation.
1 - 4	Low	Mostly acceptable – Low level of control intervention required, if any.	Mostly acceptable level of residual risk – Requires minimal control improvements.

5.4 Risk Prioritisation

Within the risk management framework, risk prioritisation provides the link between risk assessment and risk control. Risks assessed as key risks will be introduced and managed within the control major-process.

Depending on the results of the risk analysis performed, risks will be prioritised for the Municipality and per directorate.
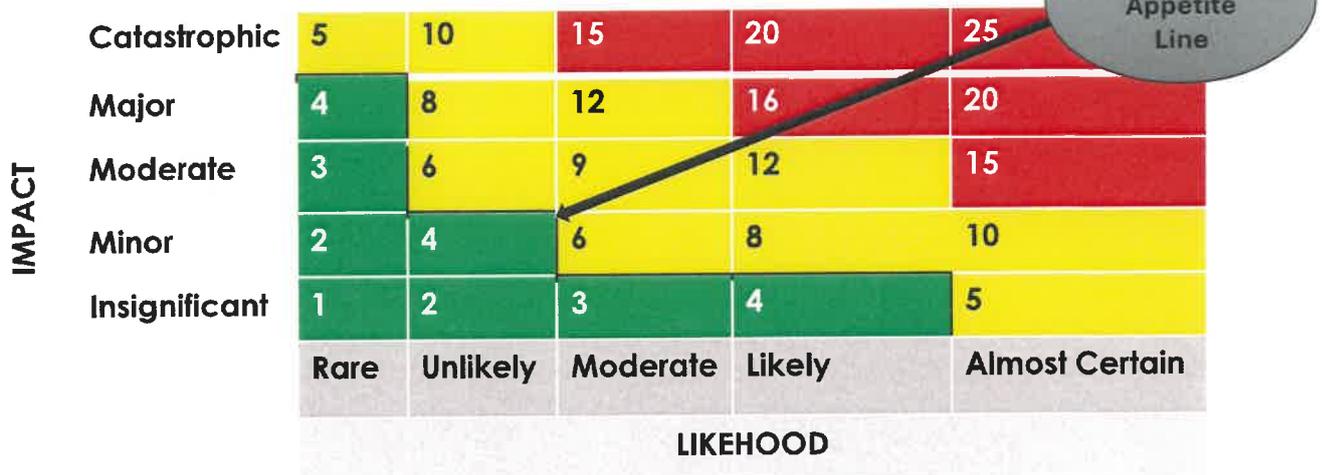
The prioritised risks will inform both the scope of internal audit and the risk management committee. Both these support structures will primarily focus on the risks assessed as high, medium and low successively.

5.4.1 Risk Appetite

Risk Appetite is the amount of risk that is accepted in pursuit of achieving objectives. The municipality has adopted a quantitative approach in determining risk appetite, reflecting and balancing goals for growth, return and risk. Risk appetite is directly related to strategy. It is considered in strategy setting, where the desired return from strategy should be aligned with the risk appetite.

Defining a risk as acceptable does not imply that the risk is insignificant. The assessment should take into account of the degree of control over each risk, the cost impact, benefits and opportunities presented by the risk and the importance of the policy, project, function or activity.

Risk Appetite of the Municipality can be graphically presented as follows:

IMPACT		Rare	Unlikely	Moderate	Likely	Almost Certain
	Catastrophic	5	10	15	20	25
	Major	4	8	12	16	20
	Moderate	3	6	9	12	15
	Minor	2	4	6	8	10
	Insignificant	1	2	3	4	5

LIKEHOOD

5.4.2 Risk Tolerance

The municipality's Risk Tolerance can be defined by reference to the following components:

i.   Acceptable risks

   a) All personnel should be willing and able to take calculated risks to achieve their own and the municipality's objectives and to benefit the municipality. The

associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.

b) Within the municipality, particular care is needed in taking any action which could:
   ✓ Impact on the reputation of the municipality;
   ✓ Impact on performance;
   ✓ Undermine the independence and objective review of activities;
   ✓ Result in fine by regulatory bodies and
   ✓ Result in financial loss

c) Any impact or opportunity which has a sizeable potential impact on any of the above should be examined, its exposures defined and it should be discussed with the appropriate line manager. Where there is significant potential and high likelihood of occurrence it should be referred to the risk management committee.

ii.   Unacceptable Risks

a) Municipality policies and guidelines and other control procedures are mandatory and must be complied with e.g. MFMA. Full compliance with these standards is required and confirmation of compliance will be sought in the Municipality's annual report. Non-compliance with constitutes an unacceptable risk.

5.5 Risk handling

The Municipality will use the following four strategies or risk response in dealing with risks:

5.5.1   Avoidance:

Risk avoidance involves eliminating the risk-producing activity entirely (or never beginning it). Although avoidance is highly effective, it is often impractical or undesirable, either because the Municipality is legally required to engage in the activity or because the activity is so beneficial to the community that it cannot be discontinued.

5.5.2   Reduction:

Risk reduction strategies reduce the frequency or severity of the losses resulting from a risk, usually by changing operations in order to reduce the likelihood of a loss, reduce the resulting damages, or both. An example of a risk reduction strategy is the preparation, before a loss occurs, of contingency plans to expedite recovery from the loss.

5.5.3   Control:

The Municipality will implement corrective action to manage risks identified while still performing the activity from the Municipality, e.g. after a loss has occurred, risk control strategies keep the resulting damages to a minimum.

5.5.4 Transfer:

Risk transfer strategies turn over the responsibility of performing a risky activity to another party, such as an independent contractor, and assign responsibility for any losses to that contractor. (When used as a risk financing method, such strategies transfer the liability for losses to another party), The Municipality or directorate is responsible for choosing a suitable strategy for dealing with a key risk. The implementation and eventual operation of this strategy is the responsibility of program managers and must be within above risk response strategies.

5.6 Risk monitoring

The risk management committee must monitor the handling of key risks by program managers as in line with the charter. Key performance indicators must therefore be developed by the committee to facilitate the monitoring of each key risk.

5.7 Risk reporting

The success of risk management depends on the availability of reliable information and effective communication at various levels. Pertinent information should be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities.

Information is needed at all levels to identify, assess and respond to risks. Management must process and refine large volumes of data into relevant and actionable information.

Risk information is to be maintained on a risk management register. The register will be maintained by the Risk Management Unit and Managers. Management is responsible for ensuring that the register is complete, relevant and accurate.

For each risk the following minimum information is to be maintained:
   a) Directorate
   b) Section
   c) Strategic Objective
   d) Risk Description
   e) Root Cause
   f) Risk reference number
   g) Source
   h) Consequences of risk
   i) Inherent risk rating
   j) Current Controls
   k) Residual risk rating
   l) Action to improve management of the risk
   m) Target date
   n) Risk Owner

For monitoring the following information should be included:
a) Progress on the implementation of the action plan
b) Revised residual risk rating

The risk management committee will report to the Accounting Officer as depicted in the risk management policy.

5.8 Fraud management

The Risk Manager will develop fraud prevention plan and be reviewed by risk management committee annually.

The Council must approve the fraud prevention plan of the Municipality.

This fraud prevention plan will also cover but not limited to the following:
* Executive Summary by Accounting Officer / Accounting Authority;
* Objective of the fraud prevention plan;
* Definition of fraud that the Municipality subscribes to;
* Fraud prevention and detection measures;
* Fraud implementation plan;
* Fraud indicators and warning signs;
* Fraud risk management;
* Fraud reporting and
* Fraud response plan.

The plan should be submitted for review approval to the risk management committee and approval by the Council.

6. ESTABLISHMENT OF RISK MANAGEMENT COMMITTEES

The Municipality will establish a risk management committee and be appointed in writing by the Accounting Officer. It is recommended that the Municipality establishes Fraud and Corruption Prevention Committees in line with the fraud and corruption prevention strategy or use the same committee members as Risk Management Committee members. This is because Risk Management includes but is not limited to minimising fraud, corruption and waste of municipal resources.

7. DISCLOSURE

In order for risk management to work, it must be embedded into everyday 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 Municipality that are held on a quarterly basis.

a) Every manager shall on a quarterly basis and during the strategic planning meetings of the Municipality 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.

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

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

✓ there is a documented and tested process in place which will allow the directorate 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.

✓ that the directorate complies with the process in place, established to review the system of internal control for effectiveness and efficiency.

b) Where the Accounting Officer cannot make any of the disclosures set out above he or she should state this fact and provide a suitable explanation.

8. RISK REPORTING LINES

Risk reporting entails generating risk management information and reporting for submission to the relevant stakeholders in the management process. These reports are an essential element of effective risk management. The following risk management reporting structure and frequency shall be used by Thabo Mofutsanyana District Municipality:

NATURE OF THE REPORT	REPORT PREPARER	REPORT FREQUENCY	REPORT USER
Functional Risk Management report	Risk Champions	Monthly	Heads of Department (Risk Owners)
Departmental Risk Management report	Heads of Department (Risk Owners)	Monthly as part of reporting to Management Committee	Municipal Manager
Enterprise Risk Management report	Municipal Manager	Quarterly as part of reporting to	Mayoral Committee

		Mayoral Committee	
Risk Management Committee report	Chairperson: Risk Management Committee	Quarterly as part of reporting to the Municipal Manager	Municipal Manager and Audit & Performance Audit Committee
Internal Audit report on effectiveness of Risk Management	Chief Audit Executive (Internal Audit Manager)	As per approved Risk Based Audit plans	Management and Audit & Performance Audit Committee
Audit & Performance Audit Committee report on effectiveness of the Risk Management Committee	Chairperson: Audit & Performance Audit Committee	Quarterly as part of reporting to Council	Council

These reporting will assist in embedding risk management at all levels of operations and decision making to enable smooth implementation of the Risk Management Policy. The reporting will be incorporated within the Risk Management Strategy during the policy review.

Diagram presentation of the reporting lines
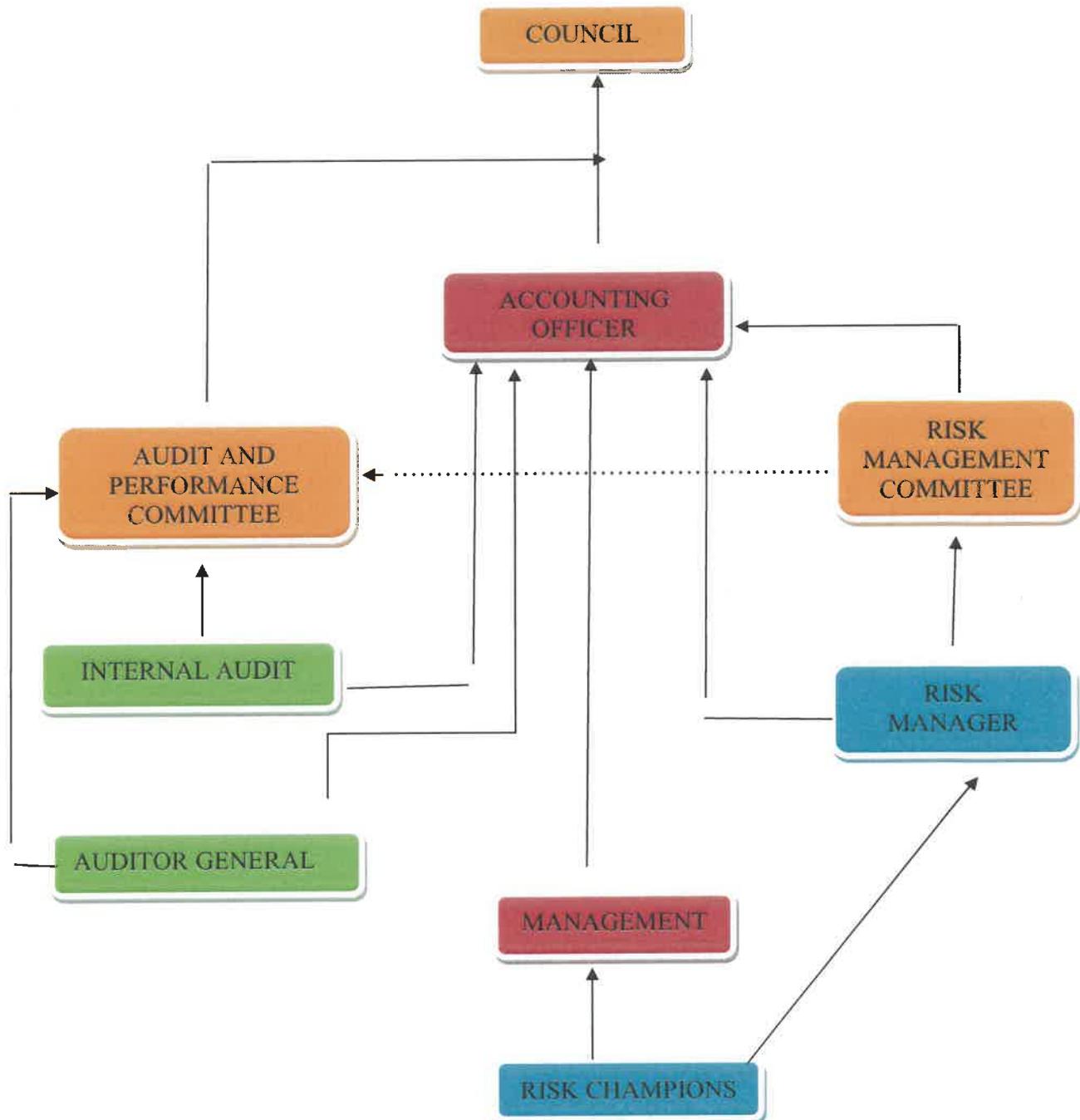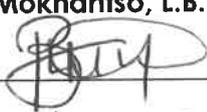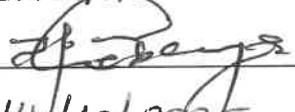

9. CONCLUSION

Risk Management is a powerful management tool to deal with uncertainties in the environment, and to establish preemptive mechanism to enhance service delivery, while narrowing the scope of corruption, misconduct and unethical professional behavior. It is also an effective decision making tool, to assist management to take the correct decisions in an uncertain environment. The development of a culture of risk

management and specific procedures for implementation will assist public servants to focus on risk analysis and response. This will improve the quality of strategic plans, which will assume both predictive and preventative dimensions. To this end, the Municipality takes full responsibility to ensure that implementation of risk management takes place in all directorates.

10. REVIEW OF THE STRATEGY

The Risk Management Committee shall review the strategy annually and recommend to the Accounting Officer for approval of any amendments that may be required.

11. APPROVAL OF THE STRATEGY

Prepared by: Risk Manager
Name: Mr. Mokhantso, L.B.
Signature:
Date: 26-09-2025
Recommended by: Interim Risk Management Committee Chairperson
Name: Ms. Mdaka, N.P.
Signature:
Date: 10-10-2025
Approval by: Municipal Manager
Name: Ms. Lebenya, I.P.M.
Signature:
Date: 14/10/2025
Noting by: Council
Council's resolution date: 31/10/2025