

# WEST RAND DISTRICT MUNICIPALITY



## **Risk Management Strategy**

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## 1. Introduction

The Risk Management Strategy (Strategy) aims to provide a comprehensive and consistent approach to risk management to ensure an organisational – wide approach to risk management, with the aim of value creation and protection, in accordance with the West Rand District Municipality’s Risk Management Policy. This includes consistent assessment of risks including risk mitigation activities from a top down perspective, as well as bottom up, through operational processes and procedures.

The WRDM will implement a structured approach to risk management based on, Australian / New Zealand International Standard for Risk Management – Guidelines ISO 31000:2018 and Local Government Risk Management Framework and COSO... This will assist the WRDM work towards:

- Aligning the objectives, culture and strategy of the WRDM with risk management;
- Introducing risk management components into existing strategic planning and operational practices;
- Communicating municipal directions on an acceptable level of risk;
- Continuously improving control and accountability systems and processes to take into account risk management and its results.
- Promoting and conveying value of risk management across the WRDM;
- Encouraging methodical monitoring of risks; and
- Ensuring the Risk Management Strategy remains relevant to and considers the context of the organization.

The key **objectives** of the Strategy are to:

- Ensure consistent and systematic approach to risk management through decision-making and corporate planning, contributing toward an effective and efficient risk management culture over time;
- Provide tools to assist management with risk identification and articulation of risks to enable appropriate risk mitigation strategies;
- Supports the overall governance framework through integration of corporate culture, internal controls, policies and procedures (“internal control environment”) and management oversight;

## **2. Risk Management – Principles, Framework and Process**

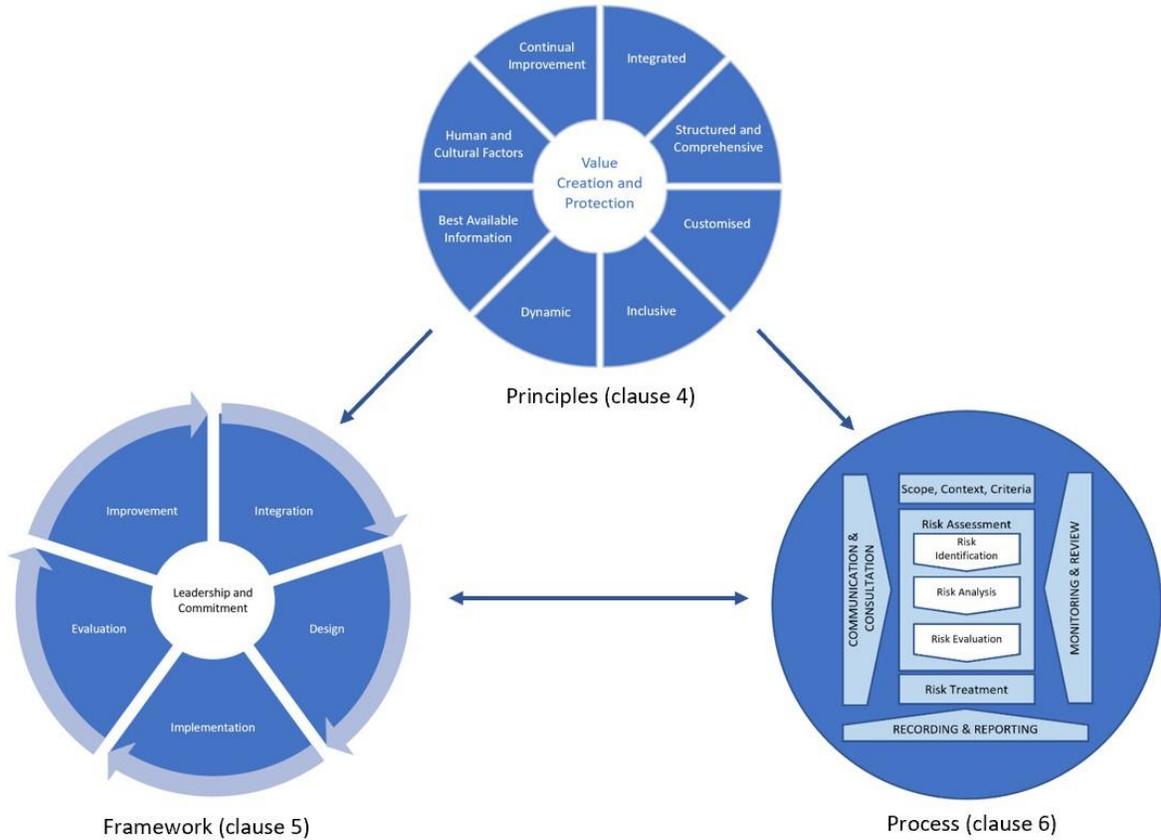
ISO 31000:2018 provides guidance on the development of a risk management approach, designed to be tailored to best apply to any organisation and its requirements. This Strategy has been developed using the Principles, Framework and Process as outlined within ISO 31000:2018.

The diagram below demonstrates the relationship between each component of the Risk Management Strategy, with the Principles forming the foundation of the Strategy. The Principles describe the features to be utilised and influence the Framework and Process elements.

The Framework component of the Strategy is intended to facilitate integration of risk management throughout the West Rand District Municipality, through commitment from leadership to risk management practices. Any gaps identified through analysis of existing practices will be remedied through the application of the Framework and will inform the Process component.

The Risk Management Process is to be designed and tailored to align best to the municipality's structure, resources and practices. The Risk Process is iterative, consisting of Risk Assessment, Risk Identification, Risk Analysis, Risk Evaluation and Risk Treatment, Communication and Consultation, Recording and Reporting along with Monitoring and Review, as noted in the below diagram. The Process component of the Strategy draws on both the Framework and the Principles in its application to managing risk.

### High Level Overview of Strategy



Source: Australia/New Zealand Standard ISO 31000:2018

### 3. Risk Management Policy

The WRDM Risk Management Policy, states the mandate and commitment including roles and responsibilities of Council and all staff:

*“Management of risk is considered the responsibility of all elected members, employees and contractors, and is to be integrated throughout the West Rand District Municipality.”*

The Risk Management Policy must be read and understood in conjunction with this Strategy.

### 4. Risk Management Principles

In accordance with ISO 31000:2018, the following key principles provide necessary guidance and methodology when implementing a structured risk management process.

**Human and cultural factors:** Risk culture is created from visible leadership and commitment in embedding a risk mindset. Executive leadership and employees have responsibility for managing risk.

Risk management should be a part of, and not separate from, the municipality’s purpose, governance, leadership and commitment, strategy, objectives and operations.<sup>1</sup>

**Structured and comprehensive:** Refers to the risk management process which encompasses:

- Risk identification, assessment and treatment;
- Risk monitoring and review; and
- Risk reporting and communication.

**Inclusive accountability and transparency:** Leadership to assign clear roles and responsibilities for staff, external stakeholders and decision makers to ensure risk management remains relevant and up- to-date, and is based on informed choices and agreed priorities.

**Integrated:** Managing risks should create and protect value by contributing to the achievement of objectives as included in the Integrated Development Plan and as well as project outcomes and improving WRDM performance as an integrated activity within existing processes.

**Customised to WRDM risk profile:** Recognises the municipality’s external and internal influences and challenges, due to its geographical location and community needs.

**Dynamic:** Risks needs to be managed in a dynamic, iterative and responsive manner.

**Continuous improvement:** Developing a more risk aware workforce will result in operational processes which take into account risk considerations and enable processes and decision making to improve over time.

**Best available information:** Risk management is reliant on use of the best available information at any given point in time.

<sup>1</sup> ISO 31000:2018 Risk Management – Guidelines, page 5

## **5. Risk Management Framework**

The impact of risk management efforts is highly dependent upon the integration of risk management throughout the municipality. The Risk Management Framework is designed to assist with facilitating high level of integration across activities, practices and functions of the WRDM.

Details of each stage within the framework are:

### **Integration**

- Integrate risk management into WRDM processes and structure. WRDM Executive council and employees are responsible for managing risk.

### **Design the Strategy**

- Understand the organisation and its context;
- Establish and adopt Risk Management Policy;
- Establish roles, responsibilities and accountabilities;
- Allocate resources; and
- Establish internal and external communication and reporting mechanisms.

### **Implement the Strategy**

- Review the existing Risk Management Plan;
- Engage stakeholders to convey the purpose and importance of the Strategy and Plan;
- Implement corporate risk management processes in all activities throughout the municipality, particularly decision making processes; and
- Identify changes in the internal and external context, as well as identifying emerging risks or changed risk conditions.

### **Evaluate the Strategy**

- Regularly assess the purpose, objectives, and outcomes of the Strategy against actual risk management practices; and
- Consider the suitability and application of the Strategy to the municipality's operations and activities.

### **Continuous Improvement**

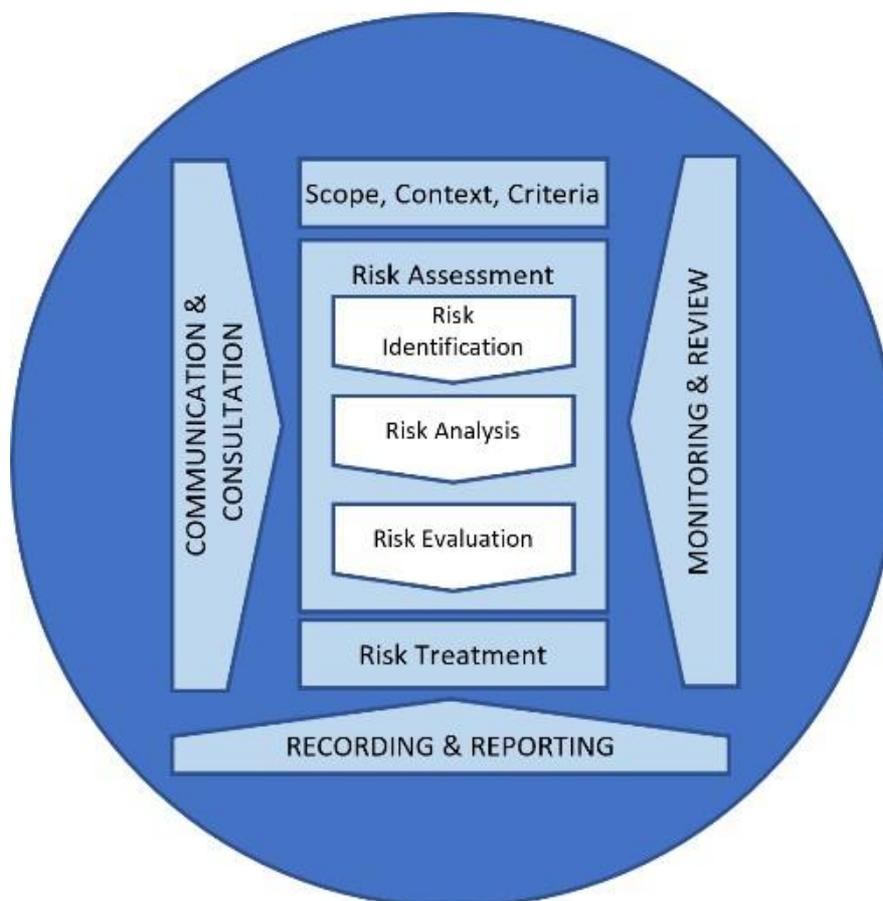
- As gaps or improvement opportunities are identified from risk processes, continuously refine the Framework and the way the process is integrated; and
- Develop plans and tasks and assign them to those accountable for implementation.

## 6. Risk Management Process

The risk management process can be delivered in many different ways. It should play a pivotal role in management of the WRDM and decision making, unified with the general operations, practices, procedures and the structure of the municipality. Applications of the risk management process should be tailored to best work with the structure and context of the municipality and draw on the risk principles as defined in Section 1.4, with appropriate consideration afforded to maintaining the dynamic nature of the process, continual improvement, and the variable nature of human and cultural factors, modifying and integration of processes/practices.

Given the highly dynamic and variable nature of the risk management process, the general approach by the WRDM is to articulate and develop details relating to risk management processes within operational procedures, to best communicate the applicable elements of the process throughout the municipality. Development of these procedures will also enable appropriate feedback to be sought from stakeholders and implemented into decision making processes.

The diagram below depicts the re-iterative and continuous process for managing risks.



Source: Australia/New Zealand ISO31000:2018

## 7. Risk Management Process Communication and Consultation

Communication and consultation are important elements of the risk management process. These elements promote a better understanding of risk across the municipality and convey the purpose behind actions occurring or required.

An effective risk management process relies on regular communication and consultation, both upward to leadership and downward from leadership and executive directors, middle management, Risk Management, Audit Committee and Executive Council.

The main objectives of risk communication and consultation are to:

- Provide information for decision making (relevance of information is dependent on currency);
- Utilise expertise from across the organisation in the course of carrying out risk management activities; and
- Facilitate an inclusive and empowered culture across the municipality in relation to risk management.

Communication of newly identified, untreated high level risks will be as follows:

<b>Risk Context</b>	<b>Purpose</b>	<b>Reporting to:</b>
Strategic	Emerging risks or existing risks which impact on the Council's ability to deliver on its strategic objectives.	Accounting Officer/Council
Operating	Risks identified from operational activities which need to be addressed, reported and monitored until effectively treated to an acceptable risk tolerance.	Accounting Officer
Projects	Risks identified from capital or infrastructure projects which impact on the project deliverables above the Council's acceptable risk tolerance.	Accounting Officer
Consolidated Risk Summary	For Executive Directors – summary of high level risks and above items to inform Risk Management Committee, Audit Committee & Council of risk treatments.	Risk Management/Audit Committee / Council

In line with the multi-directional approach to risk consultation it is equally important for newly identified untreated risk to be communicated from Council to the Executive.

Each level of management must communicate risks as they become aware of them, to relevant staff at the level directly above and below them, who must in turn communicate the risks to the next level above or below.

Communication and consultation of medium and higher risks should be through a documented process. Lower level risks may be communicated verbally.

## 8. Risk Management Process – Risk Categories / Risk Themes

The purpose of risk categories and/or risk themes is to group similar risks under the appropriate risk category. The use of standard risk categories enables:

- Structured process for staff to identify and capture risks; and
- Reporting of risks by risk type, providing focus areas requiring risk mitigation, especially where similar risks are identified across functional areas and/or by different departments.

The WRDM's risk categories/themes should be continually reviewed to ensure relevance in current environment.

Examples of risk categories within the local government sector include:

1. Performance: ability to achieve key objectives, within current resources, potential loss of infrastructure;
2. Financial: loss of assets, impact on annual revenues or costs, external audit issues, mismanagement of funds;
3. Environmental Risk: harm to the environment;
4. Reputational Damage: adverse publicity;
5. Service Delivery/Business Interruption: loss of service, disruption in business processes or impact to service delivery (including through lack of skilled resources); and
6. Legislative / Regulatory / Policy / Occupational Safety and Health: misconduct, injury, failure to meet statutory, regulatory or compliance requirements.

Risk categories will be defined in the initial establishment of risk registers and should be dynamic to reflect the current environment.

## **9. Risk Management Process – Risk Tolerance / Risk Appetite**

Risk tolerance or risk appetite can be defined as the amount and type of risk the WRDM is willing to take in order to meet its strategic objectives. Given the characteristic risk profile of local governments, it is important that the Executive Council and Accounting Officer understand and consider this relatively low appetite for risk when evaluating major decisions. To facilitate meaningful analysis of the municipality's risk exposures, one role of the Council is to constructively challenge management's proposals from a risk perspective.

As risk management processes mature, a risk appetite matrix which pre-defines types of risk and quantifies them in a structured manner will help ensure the municipality's strategic objectives are effectively planned and managed. It enables articulation of specific actions/practices, i.e. the municipality does not tolerate any risk of breaches to regulatory obligations or legislative requirements. This assists employees understanding of how their day to day risk management activities contribute towards the municipality's risk culture and risk profile.

Understanding risk appetite helps determine the level of acceptable/unacceptable risk and the extent to which additional controls are required to treat risk. As a public body, there is an expectation the municipality will maintain an inherent low appetite for risk and as a consequence adopt policies and procedures in order to maintain the organisation's reputation and to protect public funds from loss or misappropriation.

The appetite for risk in relation to service delivery, finance, health, safety and the environment is considered 'low to medium', requiring treatment with effective controls. Where the level of risk is considered 'high' or 'extreme', additional controls are required to reduce the risk level. In circumstances where the level of risk cannot be reduced below 'high', close monitoring of risk controls is required to ensure the relevant internal controls remain effective. In cases of medium to high risk, the municipality will mitigate the risk by taking out insurance where possible.

## **10. Documentation to support risk management process**

Documentation of medium and high level risks is best undertaken through the use of a risk register. Maintenance of risk registers demonstrates an active and evidentiary risk management process within the municipality.

The following provides guidance for documentation of risk registers:

- All management and employees have responsibilities to identify, assess, evaluate and treat risks in their day to day activities; risks assessed as being mitigated to an acceptable level through operating controls or risk treatments by eliminating the risk are deemed to be effectively addressed and do not require documenting;
- Risks which require further actions or treatment by more executive Directors before they are within the acceptable risk tolerance must be documented in the risk register to enable effective communication and monitoring; and
- Any risks deemed to be rated High or Extreme and unable to be immediately treated to an acceptable level, must be escalated to the Accounting Officer immediately for further escalation to the Risk Management/Audit Committee and/or Council, where unable to be adequately treated by the Accounting Officer within the constraints of the annual budget. These risks must also be recorded in the risk register.

### **Assurance activities for risks mitigated through operational and/or financial controls**

The municipality has the following governance activities to ensure controls required for risk mitigation are operating as intended:

- Completion of mandatory returns as required by legislation;
- Routine independent verification of operating controls, systems and procedures;
- External audit of financial statements; and
- Via Code of Conduct, Council policies and work procedures.

The following pages contain tools and guidance useful in the implementation of this Strategy.

- Table 1: Roles & Responsibilities
- Table 2: Impact Risk Ratings
- Table 3: Likelihood Risk Ratings
- Table 4: Matrix Assessment
- Table 5: Risk Response

**Table 1: Roles and Responsibilities**

Role	Responsibilities
<b>Council</b>	<p>Council's responsibilities are to:</p> <ul style="list-style-type: none"> <li>• Adopt a Risk Management Policy compliant with the requirements of AS/NZS ISO 31000:2018 and to review and approve the Policy in a timely manner as required.</li> <li>• Be satisfied that risks are identified, managed and controlled appropriately, to achieve municipality's strategic objectives.</li> <li>• Supports the allocation of funds / resources to treat risks as required.</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Requests and reviews reports on risk management on a biannual basis (minimum) or as required depending on the nature of the risk(s).</li> <li>• Monitors the overall risk exposure of the municipality and makes recommendations to Council as appropriate.</li> <li>• Assess for effectiveness the risk control measures / risk treatment plans in reducing the severity of the risk(s).</li> </ul>
<b>Executive Directors</b>	<ul style="list-style-type: none"> <li>• Creates an environment where staff are responsible for and actively involved in managing risk.</li> <li>• Oversight of the WRDM's Risk Management Strategy.</li> <li>• Maintain and implement the Risk Management Strategy.</li> <li>• Ensures a consistent risk management approach is embedded in the operations and processes of the municipality.</li> <li>• Actively participates and supports the Risk Management Strategy through identification and creation of suitable risk treatments to control strategic and operational risks facing the municipality.</li> <li>• Monitors the strategic and operational risk management performance.</li> <li>• Reviews the Risk Summary Report prior to submission to the Risk Management and Audit Committees.</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>• Adopt and understand the principles of risk management and comply with policies, processes and practices relating to risk management.</li> <li>• Alert and bring to management's attention, the risks existing within their area.</li> </ul>

**Table 2: Impact Rating used to assess the risks:**

Rating	Impact	Definition
5	Critical	It is very unlikely that this objective will be achieved therefore there's 1 - 29% chances that this objective will be achieved.
4	Significant	It is unlikely that this objective will be achieved therefore there's 30 - 49% chances that this objective will be achieved.
3	Moderate	The objective maybe achieved therefore there are 50 - 69% chances that the objective will be achieved.
2	Minor	It is likely that this objective will be achieved therefore there are 70 - 89% chances that this objective will be achieved.
1	Low	The objective will certainly be achieved therefore there's 90 - 100% chances that the objective will be achieved.

**Table 3: Likelihood Rating used to assess the risks:**

Rating	Assessment	Definition
5	Almost certain	There's a 90-100% chance that this risk will definitely occur.
4	Likely	There's a 70 - 89% chance that this risk will occur.
3	Moderate	There's a 50 - 69% chance that this risk may occur.
2	Unlikely	There's a 30 - 49% chance that this risk will not occur.
1	Rare	There's a 1 - 29% chance that this risk will not occur in a long term.

**Table 4: Application of the scores to the risk matrix to indicate what areas of the risk matrix would be regarded as high, medium or low risk.**

Risk index = Impact x Likelihood

I M P A C T	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		LIKELIHOOD				



Risk index	Risk Magnitude
13 - 25	High
6 - 12	Medium
1 - 5	Low

**Table 5: Risk Response**

Determine the acceptability of the risk and what action will be proposed to reduce the risk.

Risk index	Risk magnitude	Risk acceptability	Proposed actions
13 - 25	High risk	Unacceptable	Immediate implementation of corrective action plans.
6 - 12	Medium risk	Acceptable with caution	Implementation of improvement opportunities and validation of controls.
1 - 5	Low risk	Acceptable	Validation and optimisation of controls.

**TERMINOLOGY**

<b>Definitions</b>	
Consequence	The outcome of an event affecting achievement of organisational objectives.
Control	A measure that modifies a risk or manages risks within an organisation.
Establishing the context	Defining the external and internal parameters to be taken into account when managing risk and setting the scope and evaluating the significance of a risk (i.e. risk criteria).
Event	The occurrence or change of a particular set of circumstances.
Likelihood	The chance of a risk event occurring.
Monitoring	Continual checking, critically observing or determining status in order to identify change from the performance level required or expected.
Operational risk	Operational risks are linked to the Business Plan objectives and take into consideration risks which will prevent departments from delivering their annual business plans and ongoing services to the community.
Residual risk	The risk remaining after risk treatment.
Risk	The effect of uncertainty on objectives. The focus should be on the effect of incomplete knowledge of events or circumstances on the Shire's decision making.
Risk analysis	The process to comprehend the nature of risk and to determine the level of risk.
Risk assessment	The overall process of risk identification, risk analysis and risk evaluation.
Risk attitude	The organisation's approach to assessing and eventually pursuing, retaining, taking or turning away from risk.
Risk criteria	The terms of reference against which the significance of a risk is evaluated.
Risk evaluation	The process of comparing the results of a risk analysis with the risk criteria to determine whether the risk and/or its magnitude are acceptable or tolerable.
Risk identification	The process of finding, recognising and describing risks.
Risk management	The co-ordinated activities to direct and control an organisation with requirements to manage risk.

## TERMINOLOGY

Definitions	
Risk management policy	The WRDM's statement of overall intention and direction related to risk management.
Risk owner	The person with the accountability and authority to manage a risk.
Risk profile	The acceptable level of risk an organisation is prepared to accept. For the purposes of this Framework, the Shire's risk profile is the overall exposure to risk based on its aggregated risks, at a point in time.
Risk source	An element that, either alone or in combination, has the intrinsic potential to give rise to a risk.
Risk treatment	The process to modify risk.
Stakeholder	A person or organisation that can affect, be affected by or perceive themselves to be affected by a decision or activity.
Strategic risk	Strategic risks are the risks that will prevent the WRDM from meeting the objectives outlined in its Plan for the Future.
<i>Reference: ISO 31000:2018 Risk management—Guidelines</i>	