

KHEIS LOCAL MUNICIPALITY

RISK ASSESSMENT METHODOLOGY

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1. PURPOSE

This document serves to outline the processes and approaches that will be followed during the Municipal risk assessment. Northern Cape Provincial Treasury will assist with the facilitation all processes, however ownership and implementation thereof remains the responsibility of the Accounting Officer and Management.

2. INTRODUCTION

The Municipal Finance Management Act (MFMA) requires that an Accounting Officer must ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Northern Cape Provincial Treasury in partnership with !Kheis Local Municipality will conduct the Risk Assessment in accordance with Public Sector Risk Management Framework as well as other Risk Management Best Practices. The Assessment will add value to the Municipality by providing a prioritized evaluation of key risks and controls towards achieving the objectives/goals.

3. RISK ASSESSMENT PROCESS

Risk Assessment is a process of identifying and assessing risks within a business and evaluating the effectiveness of the controls that are in place to manage such risks.

These processes are designed to facilitate department's self-assessment of internal controls over significant activities, processes, operations, financial controls, reporting, as well as compliance.

3.1 PRE – WORKSHOP PLANNING

Pre-workshop activities are as follows;

- Meet Senior Management to discuss Risk Assessment processes.
- The following documents were requested from the Municipality for preparation, to gather business background and to obtain the understanding of the municipalities operations;

Strategic Risk Assessment

- Integrated Development Plan
- Annual Report
- Service Delivery and Budget Implementation
- Organizational Structure
- Internal Audit Report
- Previous Risk Register

Operational Risk Assessment

- Operational Plans
- Internal audit report
- Previous risk register if available

3.2. DURING THE WORKSHOP

The participants are guided by the facilitator in identifying risks, their causes and current controls as well as mitigating actions/ recommendations to manage such risk to acceptable level.

Suggested approach

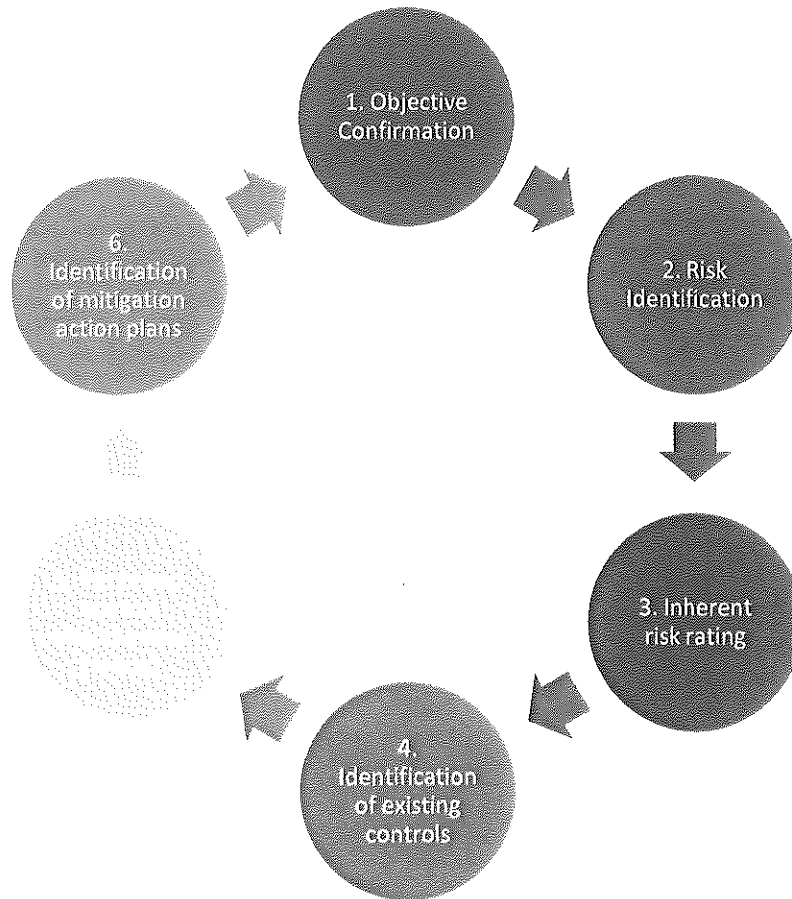
The risk assessment session is aimed at soliciting inputs from both **management and staff** across the municipality, based on the preliminary risk register/list prepared by the facilitators.

The risk assessment will be conducted in the form of consultative workshops and the top-down-approach will be utilized.

Focus areas and targeted participants will be as follows:

	Strategic risk assessment	Operational risk assessment
Focus	Strategic objectives (5 Key performance areas)	Directorates measurable objectives
Participants	Senior Management	Line Management

The following diagram illustrates in brief the process to be followed:



Risk Likelihood / Impact assessment criteria

All risks identified during the workshop are being rated by the participants, against their probability and impact both inherently and residual ratings.

- **Likelihood**, also known as **probability**, is defined as the chances that the risk will occur based on previous history, management experience and any current situation; and
- **Impact**, also known as **consequence**, is defined as the level or extent to which the risk would affect the ability of the business to deliver its strategy and objectives if it were

The risk rating guide below was used as for purposes of rating risks:

RISK RATING GUIDE

Likelihood rating guide		
Score	Likelihood	Occurrence
5	COMMON	THE RISK IS ALREADY OCCURRING OR IS LIKELY TO OCCUR MORE THAN ONCE IN THE NEXT 12 MONTHS
4	LIKELY	THE RISK IS LIKELY TO OCCUR AT LEAST ONCE WITHIN THE NEXT 12 MONTHS
3	MODERATE	THE RISK IS LIKELY TO OCCUR IN THE NEXT 2-3 YEARS
2	UNLIKELY	THE RISK IS UNLIKELY TO OCCUR IN THE NEXT 3 YEARS
1	RARE	THE RISK IS UNLIKELY TO OCCUR EVEN IN THE LONG TERM

Impact rating guide		
Score	Impact	Consequences
5	CRITICAL/ CATASTROPHIC	THE RISK WILL HAVE A SIGNIFICANT IMPACT ON THE ACHIEVEMENT OF OBJECTIVES
4	MAJOR	THE RISK WILL HAVE A HIGH IMPACT ON THE ACHIEVEMENT OF OBJECTIVES
3	MODERATE	THE RISK WILL HAVE A MODERATE IMPACT ON THE ACHIEVEMENT OF OBJECTIVES
2	MINOR	THE RISK WILL HAVE A LOW IMPACT ON THE ACHIEVEMENT OF OBJECTIVES
1	INSIGNIFICANT	THE RISK WILL HAVE A NEGLIGIBLE IMPACT ON THE ACHIEVEMENT OF OBJECTIVES

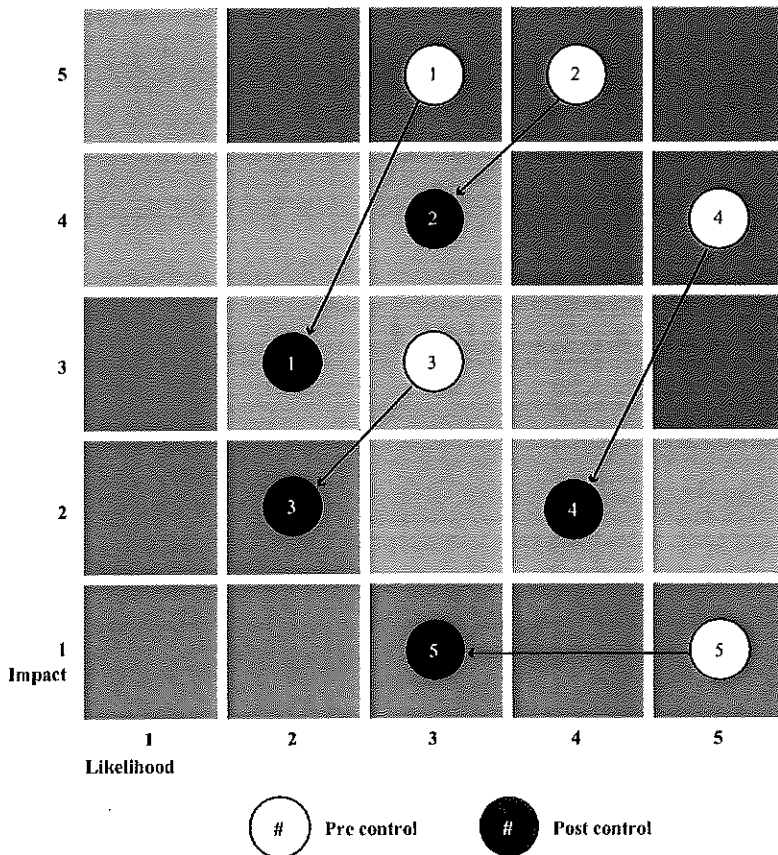
Risk Matrix

The risk matrix below as per the risk rating guide above, will depict the risk indices that result from assessing the likelihood and impact, the matching risk magnitude categories the risk indices as high, medium or low:

IMPACT	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
15-25	HIGH
8-14	MEDIUM
1-7	LOW

The following diagram differentiates between inherent and residual risk exposures;



Residual Risk Ratings – Perceived Control Effectiveness

Control Rate	Control Strength	Description	Control Weight
5	No Control	Controls and/ or Management activities are non-existent or have a major deficiencies and don't operate as intended	0%
4	Weak	Limited controls and /or management activities in place,, high level of risk remain	25%
3	Moderate Controls	Controls and/ or Management activities are in place, with a significant opportunities for improvement identified in the design or effective	50%
2	Strong Controls	Controls and/ or Management activities are properly designed and operating with opportunities for improvement identified	75%
1	Very Strong controls	Controls and/ or Management activities are properly designed and operating as intended	90%

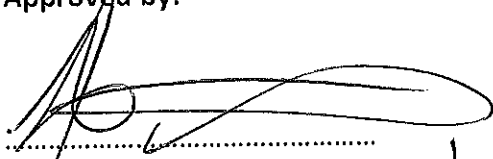
3.3 POST WORKSHOP

The information from the workshop is captured on excel spreadsheet in terms of High, Medium and Low impacts of risks. The information will be interpreted for management use and form part of the risk assessment report that will be presented to senior management.

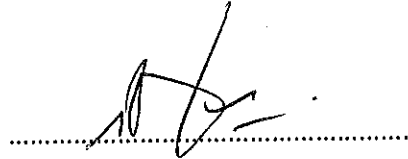
Conclusion

- Support of Senior Management is required to ensure the success of the risk assessment exercise.
- It is recommended that Management: Adopts the risk assessment methodology for implementation.

Approved by:



Ms H.T Scheepers – Municipal Manager



Mr. P. Vries - Mayor

IKHEIS MUNISIPALITEIT
Privaatsak / Private Bag X2 Groblershoop 8850
2015 -01- 29
Tel: 054 833 9500 Fax:054 833 0690
IKHEIS MUNICIPALITY