



**NKONKOBÉ LOCAL MUNICIPALITY**

**RISK ASSESSMENT REPORT  
FOR THE YEAR ENDING  
30 JUNE 2013**

**20 August 2012**

Mr KC.Maneli  
Nkonkobe Municipality  
No.8 Sommerset Street  
Fort Beaufort  
5270

Dear Sir

### **RISK ASSESSMENT REPORT FOR NKONKOB MUNICIPALITY**

In order to aid in the facilitation of Enterprise Risk Management processes within Nkonkobe Municipality, and to aid in the preparation of a risk based audit plan, SizweNtsalubaGobodo (thereinafter "SNG") conducted a workshop with the risk owners to update the risk register during August 2012. Nkonkobe Municipality deliberately took the position that ERM should also be practiced for its strategic benefits and not only for compliance purposes. It therefore follows that this on-going risk assessment process is considered more beneficial for the organisation if practised as part of Nkonkobe Municipality culture.

We are pleased to provide you with a summary of the results of the risk assessment. The risk assessment information incorporates the participants' perceptions, assumptions and judgments about Nkonkobe Municipality business risks. The report does not seek to identify all risks faced by Nkonkobe Municipality. It focuses only on those risks that were highlighted during the risk identification by management.

The results of the risk assessment reflect participants' views only. The facilitators did not attempt to influence the process or results in any way, except in the process of normalising the process followed and issues suggested by management. Their role was to provide guidance and gather information in a structured manner and to record the views of the participants.

The attached report has been set out in three sections.

Sections	Details
A	Risk identification rating process
B	A graphic representation of objectives and identified risks.
C	Annexure of Assessed Risks ranked according to Inherent risks per programme

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We would like to express our appreciation to members of management who participated in the risk assessment process.

***Report disclaimer***

Our report has been prepared for the information of management of Nkonkobe Municipality. We do not accept responsibility to any other party to whom it may be shown or who on their own volition may decide to rely on it.

We would be pleased to provide you with any further assistance and request that you do not hesitate to contact the undersigned on 0741604064.

Yours sincerely,

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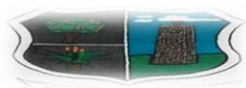
**B.Msauli**  
**Internal Audit Manager**

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- Section C** - Annexure of Assessed Risks ranked according to Inherent risks per programme

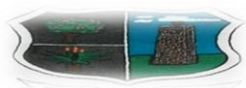
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**SECTION A**

**RISK IDENTIFICATION AND RATING PROCESS**

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**RISK ASSESSMENT PROCESS**

Good governance is the means of ensuring due and adequate control over the strategy and direction of any organisation.

**Section 62 (1) of the MFMA**

The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

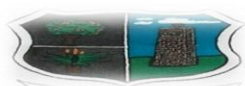
- a) that the resources of the municipality are used effectively, efficiently and economically;
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- c) that the municipality has and maintains effective, efficient and transparent systems—
  - (i) of financial and risk management and internal control; and
  - (ii) of internal audit operating in accordance with any prescribed norms and standards;

**The King III report stipulates that:**

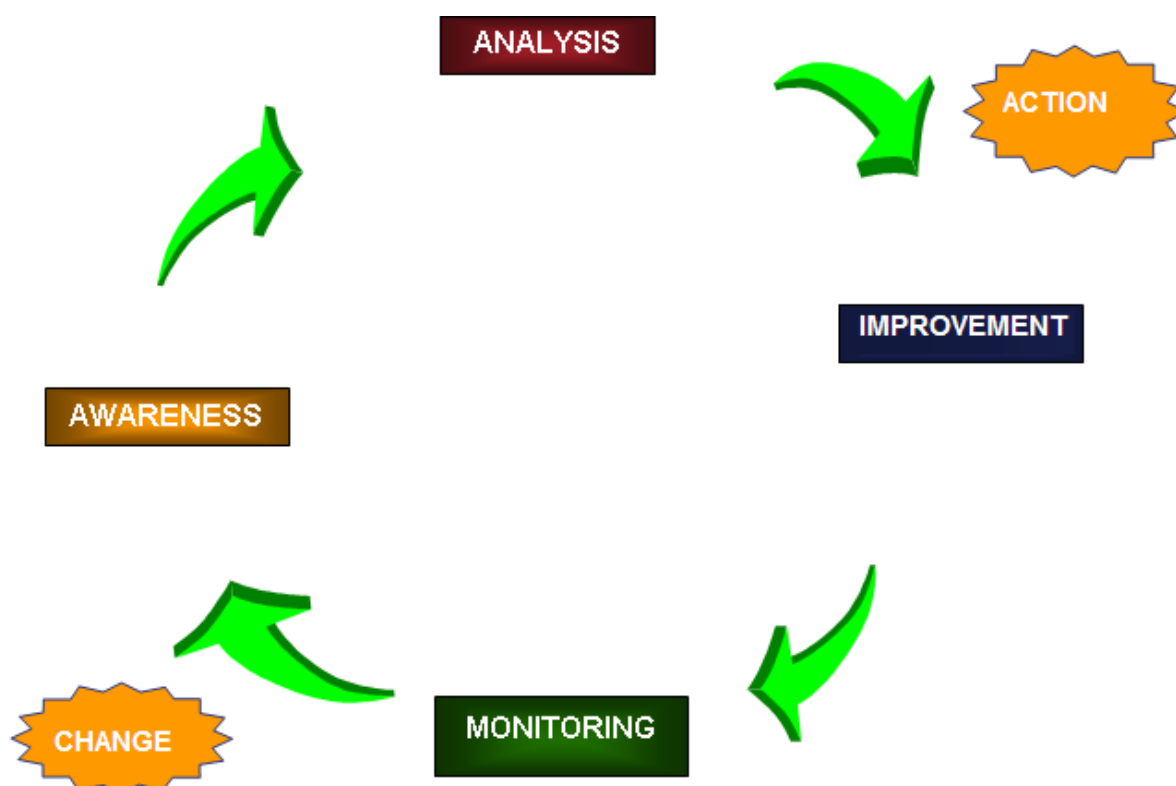
1. The responsibility for **risk management** resides with the board of directors. Directors need to oversee the total process and at the end, form their own opinion on its effectiveness. The code acknowledges the accountability of management towards the board for designing, implementing and monitoring the process of **risk management**. In practice, the board, in liaison with senior management, will set risk strategy policies.
2. The **risk management** process will be effective only if it is integrated with the day-to-day activities of the company, and if the risk strategy is incorporated into the language and culture of the company.
3. Companies should develop a system of **risk management** and internal control that builds more robust business operations and delivers:
  - A demonstrable system of risk identification;
  - Commitment by management to the process;
  - A demonstrable system of risk mitigation activities;
  - A system of documented risk communications;
  - A system of documenting the cost of non-compliance and losses;
  - A documented system of internal control and risk management;
  - An alignment of assurance of efforts to the risk profile; and
  - A register of key risks that could affect shareowner and relevant stakeholder interests.

**Traditional Approach to Risk Management versus ERM**

<b>TRADITIONAL</b>	<b>ENTERPRISE RISK MANAGEMENT</b>
1. Limited strategic influence.	1. Effective support of strategic and business planning
2. Risk avoidance.	2. Proactive risk management comprising risk avoidance and risk exploitation
3. Silo effects and barriers.	3. Integrated, holistic approach
4. Inconsistent risk reporting.	4. Concise and consolidated reporting
5. Infrequent risk assessment.	5. Continuous risk assessment, re-evaluation and management
6. Ambiguous ownership for certain types of risk.	6. Risk ownership assigned in management business and evaluation plans
7. Closed communication.	7. Open communication
8. Lack of clear definitions of roles and responsibilities.	8. Risk management roles and responsibilities clearly defined and communicated



In this report, focus will be placed on the strategic risk assessment process as part of the ERM processes. The strategic risk assessment process is an on-going process that requires active participation from all spheres of the organisation. The risk cycle is graphically depicted below:



## **1. Awareness**

The objectives of the awareness phase are to:

- Provide management with an understanding of the risk assessment process, methodology, deliverables and their involvement.
- Create an awareness of the opportunity that the methodology and technology present for better risk management in the organisation.
- Obtain management buy-in of the benefits of the risk assessment process.
- Confirm commitment and an implementation plan to be followed.

## **2. Analysis**

The objectives of the analysis phase are to:

- Rate the respective risks.
- Identify and rate existing controls in mitigating the risks to arrive at the residual risk.



### **3. Improvement**

The objectives of the improvement phase are to:

- Develop agreed management actions for unacceptable and cautionary residual risk exposures where the existing controls are inadequate.
- Communicate results to management and staff for managing the risks via the agreed action plans and controls.
- Perform control assurance activities whose main purpose is for management to test the effectiveness of their own controls and determine potential for control improvements. This process may also involve review by consultants/ auditors.

### **4. Monitoring**

The objectives of the monitoring phase are to:

- Follow-up and monitor the implementation of action plans agreed upon; and
- Amend risk profiles if significant changes occur.

### **Purpose of Strategic Risk Assessment**

The Chief Directors of Nkonkobe Municipality has to ensure that business risks across Nkonkobe Municipality are identified and managed on an on-going basis, and that best practice governance requirements are consistently complied with. It was agreed that SNG would facilitate a strategic risk assessment process to assist the Internal Audit function in formulating a risk based audit plan for Nkonkobe Municipality.

### **APPROACH**

The following process was followed ahead of and during the risk assessment process:

#### **▪ Risk identification**

During the strategic risk assessment process, participants were asked to identify the high level, holistic business risks that may impact **NKONKOBÉ MUNICIPALITY** efforts in achieving its strategic objectives. During the workshop the following risk definitions were presented to participants:

- *"An uncertain future event that could influence the achievement of objectives (King III)"*
- *"The chance of something happening that will have an impact upon objectives (AS/NZS 4360:1999)"*
- *"Risk is human behavior with imperfect knowledge about future outcomes that can vary intended result (Steven Briers)"*

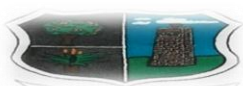
Participants were requested to consider all risks relating to the following Priority areas.

- Financial Viability
- Service Delivery and Infrastructure Development
- Good Governance and Public Participation
- Institutional Transformation and Development
- Local Economic Development
- Information Communication and Technology

#### **▪ Rating of risks**

Relative ratings have been allocated to each specific risk on the following scales:

- a) Likelihood (*the probability of the occurrence of the risk event*) and
- b) Impact (*the potential effect on the business of the risk event*).





Voting was on a scale of 1 to 5 based on consensus, during the facilitation of the workshop.

**a) Likelihood**

Likelihood is the probability (considering the present control environment or action in hand) that an adverse event, which could cause materialisation of the risk, may occur, rated as follows:

Probability Factor	Measurement Criteria	Qualification Criteria	Rating
Almost Certain	Certain to occur, almost every time.	The risk is almost certain to occur in the current circumstances	5
High	Will occur frequently, 1 out of 10 times.	More than an even chance of occurring	4
Medium	Will occur sometimes, 1 out of 100 times.	Could occur quite often	3
Low	Will seldom occur, 1 out of 1 000 times.	Small likelihood but could happen	2
Minimum	Will almost never occur, 1 out of 10 000 times.	Not expected to happen - Event would be a surprise	1

**b) Impact**

Impact is the potential loss to the business should the risk materialise, rated as follows:

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Severity Ranking	Continuity of Service Delivery	Safety & Environmental	Technical Complexity	Financial
<b>Catastrophic 5</b>	Risk event will result in widespread and lengthy reduction in continuity of service delivery to customers of greater than 48 hours	Major environmental damage. Serious injury (permanent disability) or death of personnel or members of the public. Major negative media coverage.	Use of unproven technology for critical system / project components. High level of technical interdependencies between system components.	Leads to termination of the project
<b>Critical 4</b>	Reduction in service delivery or disruption for a period ranging between 24 & 48 hours over a significant area	Significant injury of personnel or public. Significant environmental damage. Significant negative media coverage.	Use of new technology not previously utilised by the organisation for critical systems / project components.	Cost increase > 20%
<b>Major 3</b>	Reduction in service delivery or disruption for a period between 8 & 47 hours over a regional area	Lower level environmental, safety or health impacts. Negative media coverage	Use of unproven or emerging technology for critical systems / project components.	Cost increase > 10%
<b>Significant 2</b>	Brief local inconvenience (work around possible). Loss of an asset with minor impact on operations	Little environmental, safety or health impacts. Limited negative media coverage.	Use of unproven or emerging technology for systems / project components.	Cost increase < 10%
<b>Negligible 1</b>	No impact on business or core systems	No environmental, safety or health impacts and/or negative media coverage	Use of unproven or emerging technology for non-critical systems / project components	Minimal or no impact on cost

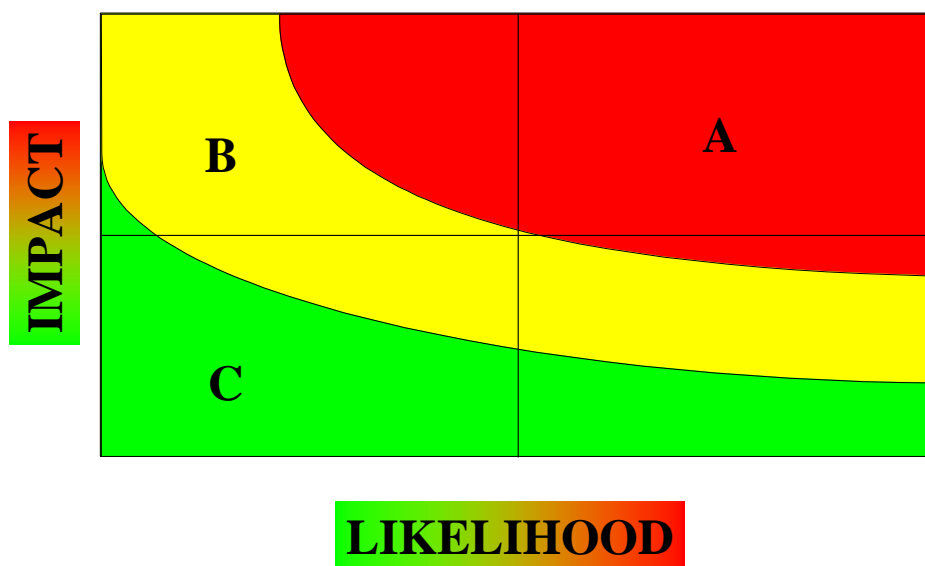
“Inherent risk rating” = “Likelihood” x “Impact”

**Residual risk** refers to the extent of risk that remains un-mitigated by existing controls excluding future control improvements.



**RISK APPROACH**

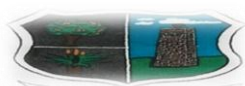
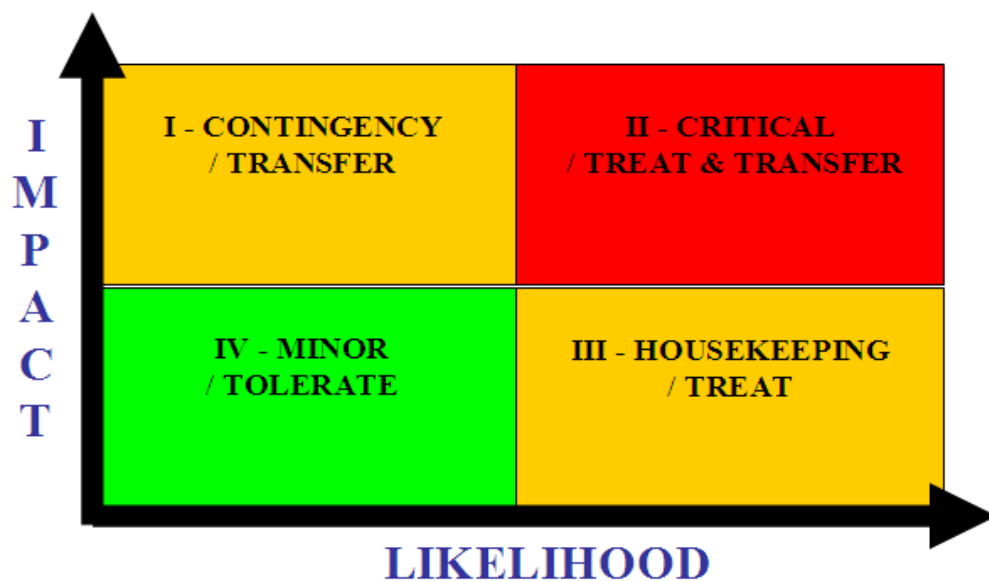
From an internal audit perspective the following approach may be considered depending on the risk appetite of management, the Accounting Officer and the Audit Committee.



- A - Internal audit monitoring and assessment (to be actioned immediately)
- B - Reduced scope monitoring and assessment (to be actioned over the medium term)
- C - Limited scope monitoring and assessment (to be actioned over the long term)

**RISK CONTROL REQUIREMENTS MATRIX – DEPARTMENT OF HEALTH**

Detailed hereunder are the specific types of control actions required against certain types of risks relative to the risk rating. Each quadrant requires specific types of controls and the nature of controls directed at such risks should therefore be as recommended in order to ensure that the risk is appropriately mitigated.



### **Quadrant I - Contingency/ Transfer Risks**

The types of controls directed toward such risks should focus on mitigating primarily the impact of the risk, should it materialise. Controls that mitigate likelihood will do less to effectively manage the specific risk. Management should consider whether the controls in place to mitigate these risks are of a nature that mitigates primarily the impact of the risk. Where such controls are not in place, future management actions should be directed at implementing controls that mitigate risk impacts.

### **Quadrant II - Critical/ Treat & Transfer Risks**

The types of controls directed toward such risks should focus on mitigating both the **impact** and **likelihood** of the risk, should it materialise. Controls that mitigate one of the aspects only will do less to effectively manage the specific risk. Where such controls are not in place, future management actions should be directed at implementing a combination of controls that mitigate both risk impacts and likelihood.

### **Quadrant III - Housekeeping/Treat Risks**

The types of controls directed toward such risks should focus on mitigating primarily the likelihood of the risk, should it materialise. Controls that mitigate impact will do less to effectively manage the specific risk and are typically considered expensive. Management should consider whether the controls in place to mitigate these risks are of a nature that mitigates primarily the likelihood of the risk. Where such controls are not in place, future management actions should be directed at implementing controls that primarily mitigate risk likelihood.

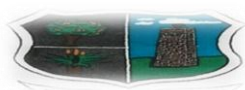
### **Quadrant IV – Minor/Tolerate Risks**

These risks fall within the category where management accepts them without further action. However, management is required to monitor these risks to ensure that they do not graduate into the preceding categories through lack of monitoring.

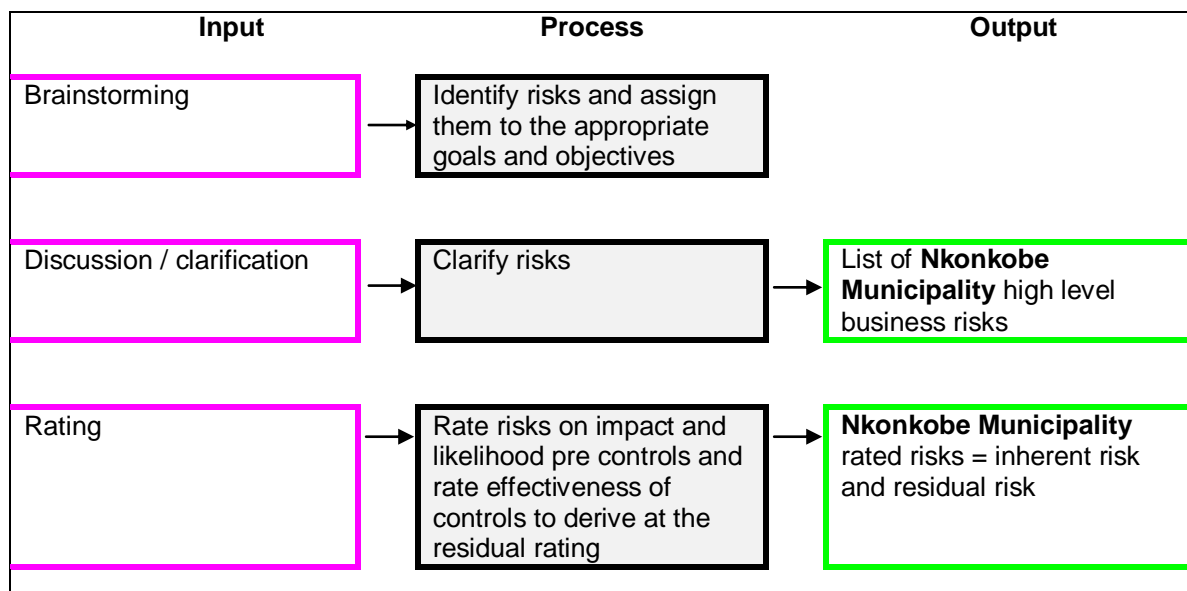
In order to assist in determining the extent of inherent risk, the following scales are used as guidelines:

<b>Thresholds</b> Where the average result is:		<b>Threshold Interpretation</b>
13 and higher		RED – Unacceptable High Inherent
between 8 and 12		YELLOW – Cautionary Medium Inherent
between 1 and 7		GREEN – Acceptable – Low Inherent

<b>Priority</b>	<b>Residual Risk Rating</b>	<b>Suggested Action</b>	<b>Suggested Timing</b>
High	13 and higher	Management should take immediate action to reduce risk exposure to an acceptable level.	Immediate action required
Medium	between 8 and 12	Management should constantly monitor the risk exposure and related control adequacy.	Medium-term, within three months
Low	between 1 and 7	Management may consider reducing the cost of control.	Monitor, no action required



## Summary



The wording of risks was agreed to by the participants. The quality of the results therefore depends on the knowledge, experience and quality of input of the participants.

## Way Forward

The following actions relevant to the risk management process are recommended to be implemented.

### *Analysis of controls and rollout of action plans*

The team should assess the appropriateness of controls and cost motivation of such controls by determining its significance in managing identified contributing factors. It is envisaged that the team use the results of this risk assessment as a platform for identifying and addressing risks at the next level.

It is important that a process of tracking progress made with control improvements is followed. Such a process provides a trail of information that may prove to be necessary at some future stage. Good governance practices would expect this. Because risk is often a process of perception, misunderstandings can arise where no record is kept. A process of follow-through must be used.

### *Periodic risk reporting*

The executive management team must receive credible and accurate information regarding the risk management processes of the organisation in order to give the necessary assurance to stakeholders.



Monitoring and reporting enables **Nkonkobe Municipality** to:

- Pre-empt emerging risks;
- Ensure that current risk management practices are relevant and properly implemented;
- Identify areas of weakness in control;
- Provide the Accounting Officer and management with up to date risk information.
- Keep track of changes in its control environment to proactively address unwanted surprises

*Periodic review of risks*

At least once a year **Nkonkobe Municipality** should undertake a thorough reassessment of its risks, using the methodology described in their ERM framework document.

*Internal Audit Function*

Internal audit plans depend greatly on the outputs of risk assessments. Risks from risk assessments must be incorporated into internal audit plans in addition to management and audit committee priorities. The risk assessment process is useful for internal audit staff because it provides the necessary priorities regarding risk as opposed to using standardised audit sheets. The audit activities will focus on adherence to controls for the key risks that have been identified. In addition, internal audit staff may direct management towards the need for better controls around key risks.

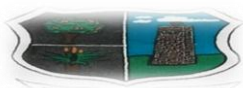
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**SECTION B**

**GRAPHIC PRESENTATION OF IDENTIFIED RISKS, RATED BY  
IMPACT AND LIKELIHOOD**

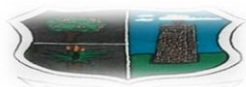
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## 1.1 NKONKOBÉ MUNICIPALITY RISK REGISTER

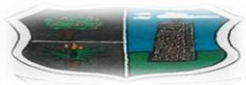
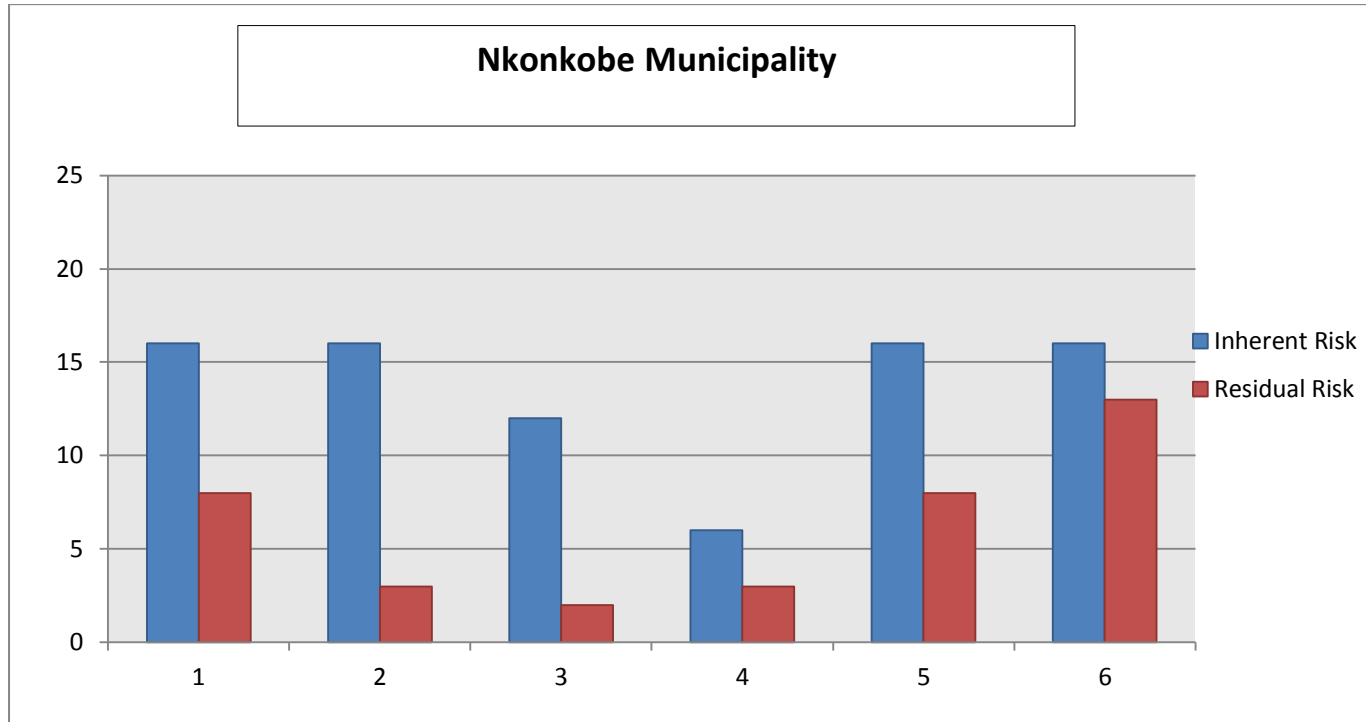
The register indicates all the risks that were assessed during the workshop that was held on the 01 February 2011. The risk rating was also facilitated during the workshop.

Ref	Focus area	Risk Name	Inherent Rating	Residual Rating
1	Financial Viability	Ineffective financial management	16	8
2	Service Delivery and Infrastructure Development	Inadequate resources	16	16
3	Good Governance and public participation	Poor management	15	12
4	Institutional Transformation and Development	Inadequate /ineffective institutional structure	15	12
5	Local Economic Development	Poor municipal economic activity	16	8
6	Information, Communication and Technology	Poor and ineffective information system	16	13



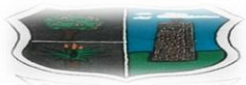
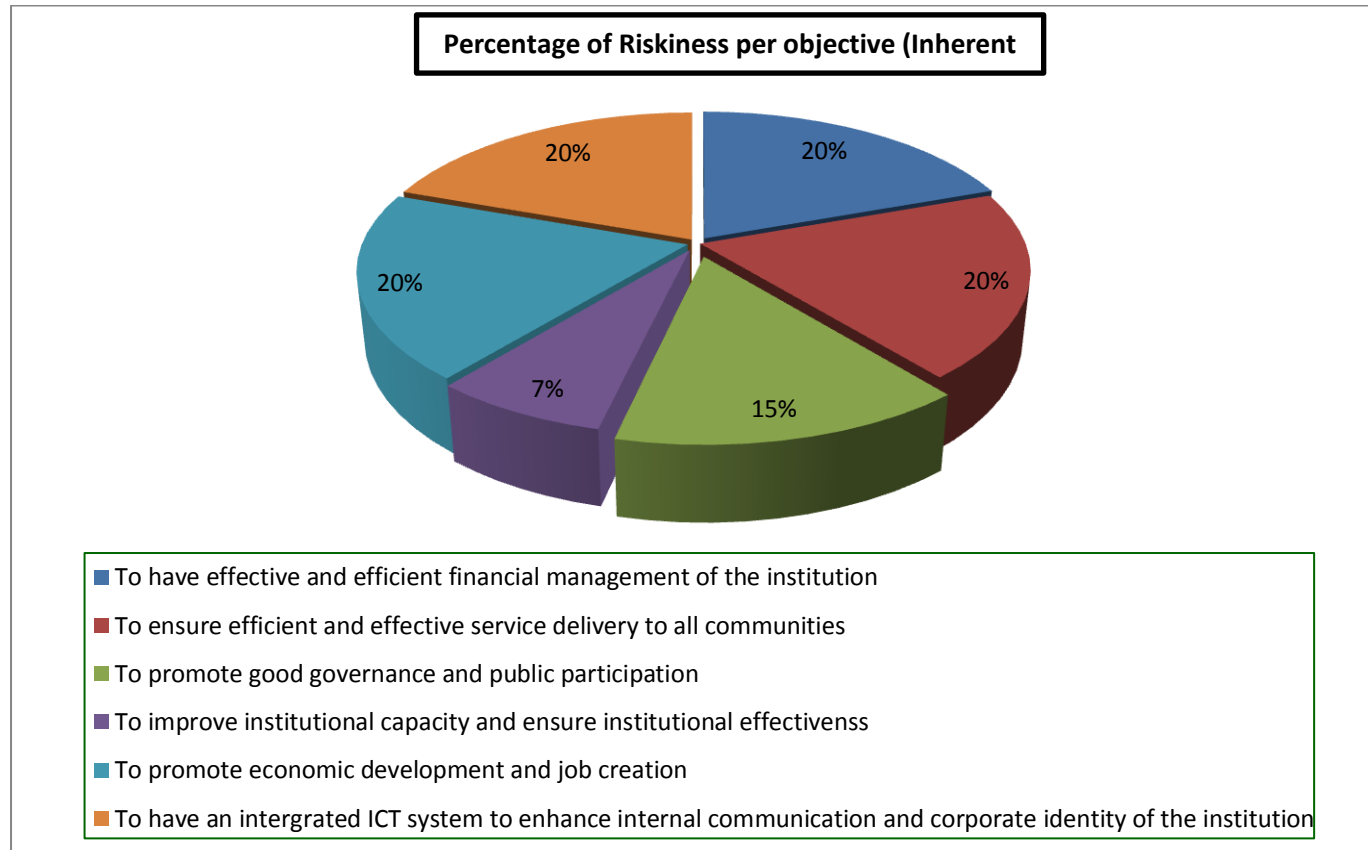


The graph A below depicts the above strategic risk register in terms of inherent and residual rating.

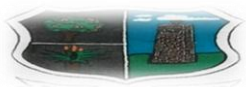
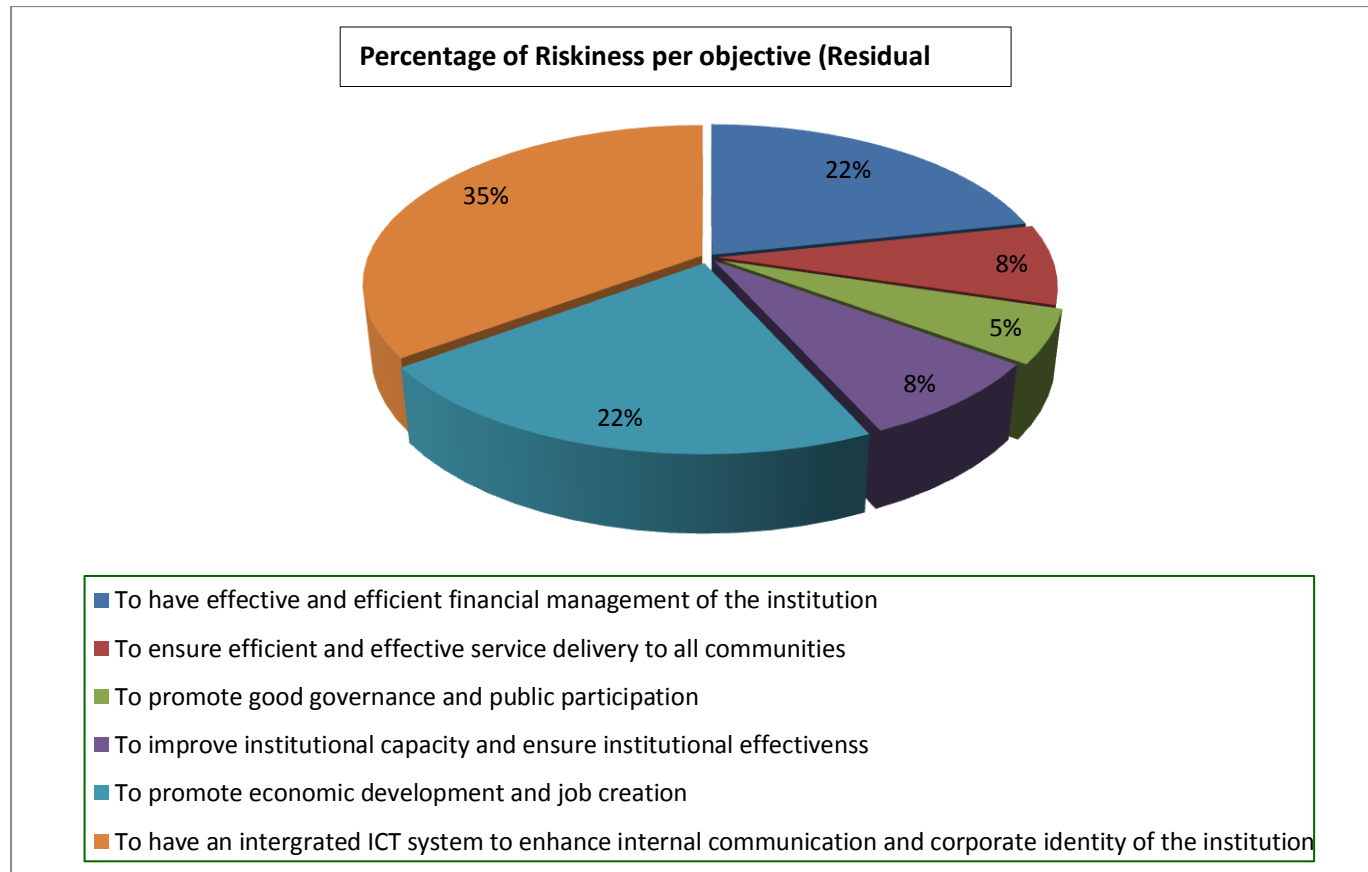


1.2 % OF RISKINESS PER OBJECTIVE- BEFORE AND AFTER CONTROLS

Graph B:

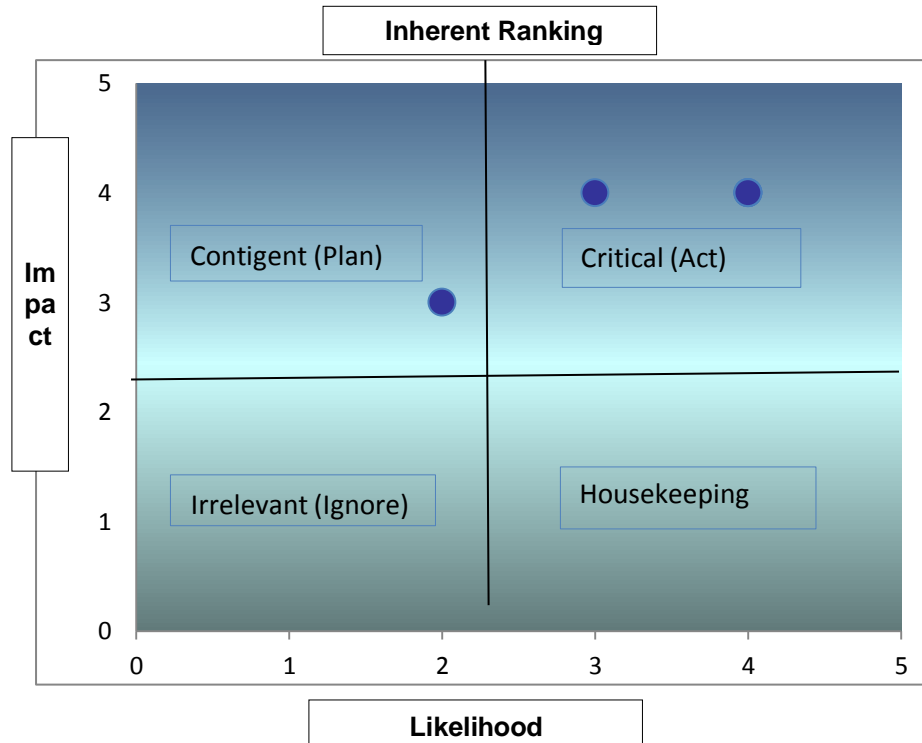


Graph C

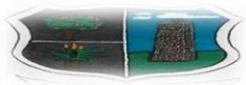


### 1.3 RISK PRIORITISATION

Depicted in the diagrams below is an illustration of the significance of the risks, before considering controls.



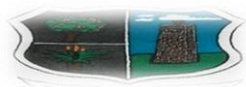
Risk No	Risk Title	Inherent Impact	Inherent Likelihood
1	Ineffective financial management	4	4
2	Inadequate resources	4	4
3	Poor management	3	4
4	Inadequate /ineffective institutional structure	2	3
5	Poor municipal economic activity	4	4
6	Poor and ineffective information system	4	4



1.4 The Table below shows risks by priority of the Nkonkobe Municipality sorted by both Inherent and Residual Risk

Priority	Risk Number	Risk Title	Inherent Risk
1	1	Ineffective financial management	16
2	2	Inadequate resources	16
3	5	Poor municipal economic activity	16
4	6	Poor and ineffective information system	16
5	3	Poor management	12
6	4	Inadequate /ineffective institutional structure	6

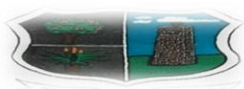
Priority	Risk Number	Risk Title	Inherent Risk
1	6	Poor and ineffective information system	13
2	1	Ineffective financial management	8
3	5	Poor municipal economic activity	8
4	2	Inadequate resources	3
5	4	Inadequate /ineffective institutional structure	3
6	3	Poor management	2



**SECTION C**

**Annexure of Assessed Risks ranked according to Inherent risks per programme**

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## 1.5 RISK REGISTERS

The strategic risks in the risk register clearly demonstrate the strategic goals that are impacted on. Listed below are the strategic goals. The relevant number of the strategic goal is reflected in the risk register.

### Strategic Objectives

STRATEGIC OBJECTIVES
1- To have effective and efficient financial management of the institution
2- To ensure efficient and effective service delivery to all communities
3- To promote good governance and public participation
4- To improve institutional capacity and ensure institutional effectiveness
5- To promote economic development and job creation
6- To have an integrated ICT system to enhance internal communication and corporate identity of the institution



ANNEXURE 1- RISK REGISTER SORTED BY INHERENT RISK

Ref Num	Priority Area	Strategic Objective	Risk Description	Contributing Factors	Existing Controls	IR	RR	Control Improvements	Risk owner by order of accountability	Due date
1	Financial Viability	To have effective and efficient financial management of the institution	Ineffective financial management	<ul style="list-style-type: none"> <li>- Increase indigent</li> <li>- Corruption and fraud</li> <li>- Defaulters</li> <li>- Ineffective Financial Reporting</li> <li>- Not getting enough funding from equitable share</li> </ul>	<ul style="list-style-type: none"> <li>- Use of Venus Financial System</li> <li>- Fraud Prevention Policy</li> <li>- Submission of Section 71 Regular Reports</li> <li>- Credit Management Policy</li> <li>- HR Strategy (Qualified people appointed)</li> </ul>	16	8	<ul style="list-style-type: none"> <li>- Develop revenue enhancement strategy</li> <li>- Upgrade of Venus Financial System</li> <li>- Training</li> <li>- Filling of critical vacant positions</li> </ul>	Chief Financial Officer (CFO)	Strategy-31 Dec 2012  Upgrading- 30 June 2013  Training-On-going  Vacant positions-On-going





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Ref Num	Priority Area	Strategic Objective	Risk Description	Contributing Factors	Existing Controls	IR	RR	Control Improvements	Risk owner by order of accountability	Due date
2	Service Delivery and Infrastructure Development	To ensure efficient and effective service delivery to all communities	Inadequate resources	<ul style="list-style-type: none"> <li>- Lack of skills (failure to attract and retain the right skills)</li> <li>- Lack of financial resources</li> <li>- Ineffective council</li> <li>- Ineffective intergovernmental functions</li> <li>- Ineffective budget consultation/research (community participation)</li> <li>- Ineffective supply chain management</li> <li>- SDBIP not aligned to budget</li> </ul>	<ul style="list-style-type: none"> <li>- Periodic Reports</li> <li>- Section 71 Reports</li> </ul>	16	16	<ul style="list-style-type: none"> <li>- Forge partnerships(PPP)</li> </ul>	Engineering Manager	30 June 2013



Ref Num	Priority Area	Strategic Objective	Risk Description	Contributing Factors	Existing Controls	IR	RR	Control Improvements	Risk owner by order of accountability	Due date
3	Good Governance and public participation	To promote good governance and public participation	Poor management	<ul style="list-style-type: none"> <li>- Lack of public participation-Failure to comply with legislation and regulations</li> <li>- Lack of combined assurance framework</li> </ul>	<ul style="list-style-type: none"> <li>- Combined Assurance Structures (e.g. internal audit)</li> <li>- Fraud Prevention Policy</li> <li>- Communication Strategy</li> </ul>	15	12	<ul style="list-style-type: none"> <li>- Improve performance information</li> <li>- Strengthen IGR</li> </ul>	Senior Manager (Corporate Services)	30 June 2013



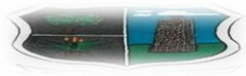
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Ref Num	Priority Area	Strategic Objective	Risk Description	Contributing Factors	Existing Controls	IR	RR	Control Improvements	Risk owner by order of accountability	Due date
4	Institutional Transformation and Development	To improve institutional capacity and ensure institutional effectiveness	Inadequate /ineffective institutional structure	<ul style="list-style-type: none"> <li>- Lack of institutional capacity</li> <li>- Lack of skills</li> <li>- Inadequate financial resources</li> </ul>	<ul style="list-style-type: none"> <li>- HR Strategy</li> <li>- Skills Development Plan</li> <li>- Retention Policy</li> </ul>	15	12	<ul style="list-style-type: none"> <li>- Training</li> <li>- Filling of critical vacant positions</li> </ul>	Senior Manager (Corporate Services)	On-going



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Ref Num	Priority Area	Strategic Objective	Risk Description	Contributing Factors	Existing Controls	IR	RR	Control Improvements	Risk owner by order of accountability	Due date
5	Local Economic Development	To promote economic development and job creation	Poor municipal economic activity	<ul style="list-style-type: none"> <li>- Inadequate local economic development strategy</li> <li>- Climate</li> <li>- Poor communication strategy</li> <li>- Lack of skills</li> <li>- Poor national/global economic outlook</li> </ul>	<ul style="list-style-type: none"> <li>- LED Strategy</li> <li>- Communication Strategy</li> <li>- Retention Strategy</li> </ul>	16	12	<ul style="list-style-type: none"> <li>- Forge partnerships(PP P)</li> <li>- Full implimentation and monitoring of LED Strategy</li> </ul>	Manager (Strategic Planning)	30 June 2013



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RISK ASSESSMENT REPORT  
AUGUST 2012**

Ref Num	Priority Area	Strategic Objective	Risk Description	Contributing Factors	Existing Controls	IR	RR	Control Improvements	Risk owner by order of accountability	Due date
6	Information, Communication and Technology	To have an integrated ICT system to enhance internal communication and corporate identity of the institution	Poor and ineffective information system	- Inadequate Information System Framework	- Venus system	16	12	- Co-sourcing of IT system	Senior Manager (Corporate Services)	30 June 2013



DRAFT REPORT

