

RISK MANAGEMENT POLICY 2020/21

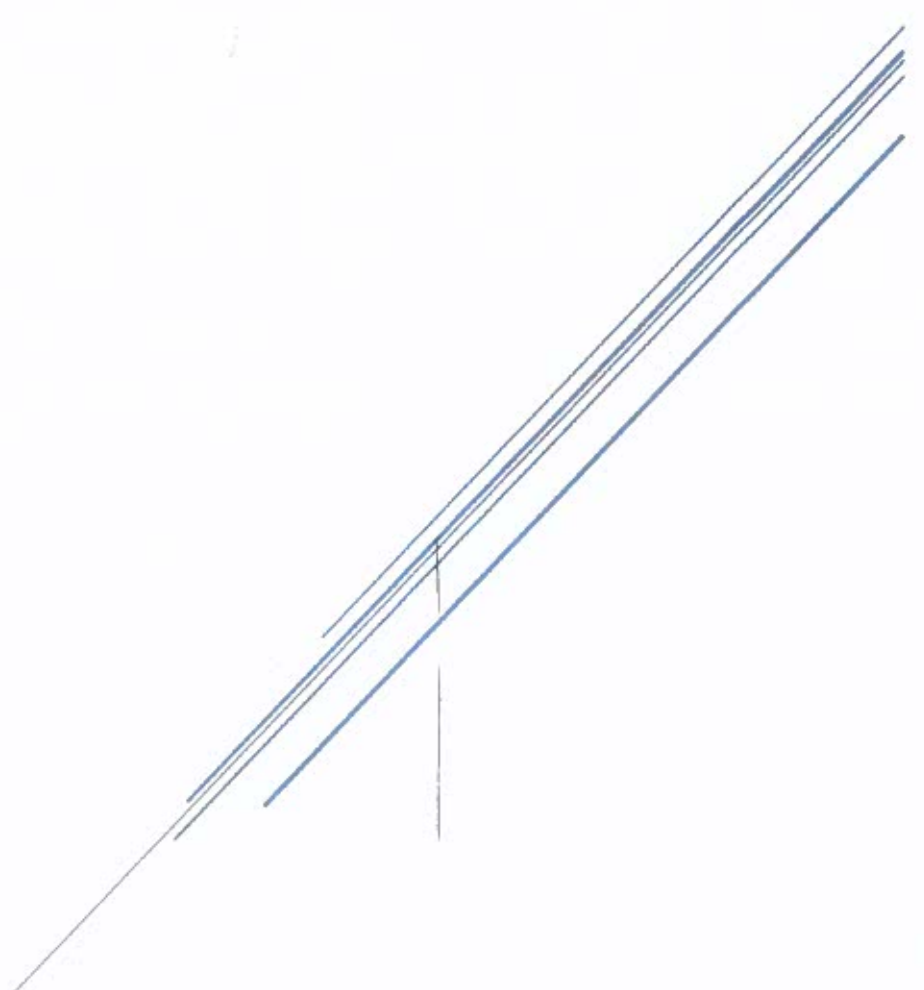


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1. Commitment Statement

The municipality is committed to the effective risk management and treatment of risk in order to achieve its objectives. Management of risk is the responsibility of Council, the Municipal Manager, Senior and middle management and all employees of the municipality. The municipality will ensure that:

- a. Risk management is an integral part of the organisation's key business planning, resourcing and decision making process;
- b. There is a consistent and systematic approach to the management of risks across the institution, and that the risk management strategy is implemented as planned;
- c. Staff have the necessary training to allow them to participate in risk management activities;
- d. That the municipality is honest in relation to the risks and challenges facing the institution;
- e. Employees become aware of the risks associated with their area of work and must manage these risks to be within the tolerance level by using risk management response strategies outlined in the municipality's risk management strategy.

2. What is Risk Management

Risk management in the context of Enterprise Risk Management. Enterprise Risk Management is a process, initiated by the council, Governance committees, the Municipal Manager, Senior and Middle Management, and other staff of the municipality. The process involves Identifying and assessing risks using a structured method, and developing the necessary controls in response to such risks thus, to provide reasonable assurance that the municipality will achieve its objectives as set out in the Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plan(SDBIP). Risk management is an important process and must be embedded in the planning and running of business of the municipality to identify those critical risks that threatens the achievement of objectives especially those that relate to fulfilling the constitutional mandate of the municipality.

3. Objectives

- 3.1. To explain the municipality's approach to risk management and ensure that it has a consistent and effective approach to risk management;
- 3.2. To ensure that the municipality's culture and processes encourage the identification, assessment and treatment of risks that may affect its ability to achieve its objectives;
- 3.3. To explain key aspects of risk management;
- 3.4. To clearly indicate the risk management reporting procedures;
- 3.5. To hold management and officials accountable for the implementation of risk management in their area of responsibility;
- 3.6. To create an environment where all the municipality's employees take responsibility for managing risk;
- 3.7. To create a more risk aware organisational culture through enhanced communication and reporting risk; and



3.8. To improve corporate governance and compliance with relevant legislation;

4. Applicable legislation, regulations and standards

4.1. Municipal Finance Management Act (Act 56 of 2003)

5. Corporate Governance

5.1. Public Sector Risk Management Framework

5.2. International Standards for the Professional Practice of Internal Auditing, Position papers and practice advisories

5.3. King Code of Governance Principles for South Africa

6. Responsibility for Risk Management

6.1. Council

6.1.1. Council should ensure that the Municipal Manager has prepared and implemented a risk culture in the municipality;

6.1.2. Should approve all risk management and related policies and procedures;

6.1.3. Should hold the Municipal Manager accountable for the implementation of risk management in the municipality;

6.1.4. Ensure that there is an effective risk management process in the municipality.

6.2. Governance Committees

6.2.1. Risk Committee

6.2.1.1. All Committee members shall be committed to partake in all engagements relating to institutional risk management and implement any measures that might provide comfort to the Municipal Manager, that there are sufficient measures to mitigate the risks.

6.2.1.2. Promote high level of compliance with municipal policies, laws, ethics and other legal prescripts

6.2.1.3. The Risk Management Committee should review and assess the integrity of the risk control system and ensure that the risk policy and strategy are effectively implemented and managed

6.2.1.4. The Risk Management Committee should monitor the management of significant risks to the municipality, including emerging and prospective impacts;

6.2.1.5. To review and improve the risk management policy, strategy and implementation plan. The Committee shall ensure that all risks are adequately identified and dealt with.

6.2.1.6. Review risk information and assessment methodologies;

6.2.1.7. Review and approve the risk response of the municipality;

6.2.1.8. To have due regard for the principles of good governance and codes of best practice;

6.2.1.9. Reviewing the adequacy of the risk management processes including scope and depth;



- 6.2.1.10. Monitoring the reporting of risk management with particular emphasis on significant risks or exposures and the appropriateness of the steps management has taken to reduce the risk to an acceptable level;
- 6.2.1.11. Consider progress on action plans developed as part of the risk management process by each department;
- 6.2.1.12. Reviewing any findings and recommendations of the external auditors, internal auditors or other parties in relation to risk management;
- 6.2.1.13. Reviewing the impact of any changes in the Municipality and assess how those changes might affect the institutional risk profile; and
- 6.2.1.14. Reviewing any legal and regulatory matters that may have a significant impact on the institutional risk profile

6.2.2. **Audit Committee**

The audit committee must advise the municipal council, political office bearers, Municipal Manager, and management staff of the municipality on matters relating to risk management. These matters include advising the stakeholders on whether the risk management process of the municipality are adequate and effective such that, they provide reasonable assurance that the municipality will achieve its objectives as set out in its strategy documentation.

The Audit committee should review on an ongoing basis; reports submitted by Internal Audit regarding risk management and should issue recommendations to the council.

6.3. **Municipal Manager**

The Municipal Manager shall be responsible for the following:

- 6.3.1. Setting the tone at the top by supporting Enterprise Risk Management and allocating resources towards establishing the necessary structures and reporting lines within the institution to support Enterprise Risk Management;
- 6.3.2. Placing key risks at the forefront of the management agenda and devote attention to overseeing their effective management;
- 6.3.3. Approving the organisations risk appetite and risk tolerance;
- 6.3.4. Holding management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities;
- 6.3.5. Leverage Risk Management Committee, Audit Committee, Internal Audit and other appropriate structures for assurance on the effectiveness of risk management;
- 6.3.6. Providing all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored;
- 6.3.7. Providing appropriate leadership and guidance to senior management, and structures responsible for various aspects of risk management.

6.4. Chief Risk Officer

The chief risk officer must;

- 6.4.1. Develop a risk management implementation plan;
- 6.4.2. Work with senior management to develop the overall enterprise risk management vision, strategy, policy as well as risk appetite and tolerance levels for approval by the Municipal Manager;
- 6.4.3. Communicate the risk management policy, strategy, and implementation plan to all stakeholders in the institution;
- 6.4.4. Continuously driving the risk management process towards best practice;
- 6.4.5. Developing a common risk assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Municipal Manager;
- 6.4.6. Coordinating risk assessments within the municipality/directorate/ sub-directorate;
- 6.4.7. Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, Municipality's restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously;
- 6.4.8. Assist management in developing and implementing risk responses for each identified material risk;
- 6.4.9. Participate in the development of the combined assurance plan for the institution, together with internal audit and management;
- 6.4.10. Ensure effective information systems exist to facilitate overall risk management improvement within the institution;
- 6.4.11. Collate and consolidate the results of the various assessments within the risk and control profile, and develop the necessary high level control interventions to manage these trends;
- 6.4.12. Analyse the results of the assessment

6.5. Internal Audit

- 6.5.1. Utilises the results of the risk assessment to develop long term and current year Internal Audit plans;
- 6.5.2. The Internal Audit unit must at least on an annual basis perform necessary audits on the risk management process of the municipality, in order to express an opinion on whether such risk management processes are adequate and effective to ensure that the following is achieved by the municipality;
 - 6.5.2.1. The municipality's strategic and short term objectives are achieved;
 - 6.5.2.2. The financial operations and information is reliable and have integrity;
 - 6.5.2.3. Operations and programs of the municipality are effective and efficient;
 - 6.5.2.4. The municipality complies with laws and regulations in conducting its operations;



6.5.2.5. Municipal assets are safeguarded;

6.5.3. The internal audit function can assist the management with regard to risk management but not ultimately assume the risk management ownership.

6.6. Management

Management shall,

- 6.6.1. ensure that risk management activities are promoted and implemented in their respective departments or sections;
- 6.6.2. observe and uphold risk management and related policies and procedures of the municipality.
- 6.6.3. develop internal controls necessary to address risks and residual risks identified by the risk management division;
- 6.6.4. ensure that internal controls developed in response to risks are implemented (effective) and that such are adequate;
- 6.6.5. assist the Chief Risk Officer identify risks in their respective divisions/ units/ departments;
- 6.6.6. regularly provide information to the Chief Risk Officer, about action taken or the progress made towards addressing risks identified for the purpose of updating the risk register;
- 6.6.7. consider risks identified prior to taking any important decisions;

6.7. Other Officials

Each official will be responsible for;

- 6.7.1. Ensuring familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy;
- 6.7.2. Acting in terms of the contents of the documents stated in the preceding paragraph
- 6.7.3. Acting within the risk appetite and tolerance levels set by the business unit;
- 6.7.4. Adhering to the code of conduct of the municipality;
- 6.7.5. Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility;
- 6.7.6. Providing information and cooperation with other role players;
- 6.7.7. Participation in risk identification and risk assessment within their respective business unit;
- 6.7.8. Implementation of risk responses to address the identified risks.



6.8. Risk Champions

- 6.8.1. To ensure that divisions are effectively implementing the risk management strategy;
- 6.8.2. Identify and report fraudulent activities within their units;
- 6.8.3. Conduct preliminary inquiry on any alleged incident that is in conflict with the employee's code of conduct and draft a report for the investigations;
- 6.8.4. Provide support on investigations by facilitating the obtaining of information in any form by investigators, in line with the applicable regulations,
- 6.8.5. Be a point of entry for investigators and risk management officials within their respective units.

7. Risk Appetite and Risk Tolerance

The municipal manager must ensure that there is a risk culture in the municipality. The municipal manager must ensure that the risk appetite and risk tolerance levels of the municipality have been set and all staff adheres to it, the risk culture must be reviewed on an annual basis.

7.1. Risk Appetite:

The municipality manages public funds to implement and develop infrastructure and buys other assets for the purposes of rendering basic services to the public at a minimum fee, the environment in which the municipality operates is highly regulated, political and vulnerable bad publicity, violence and public unrest. The municipality therefore, cannot afford to take any risk in the course of running its operations.

7.2. Risk Tolerance:

The municipality shall set its risk tolerance levels per objective category according to Strategic, Reporting, Compliance and Operational objectives. The tolerance levels are subject to review on an annual basis, and are as follows:

7.2.1. ***Tolerance of risk towards strategic objectives: The municipality;***

- 7.2.1.1. has a ***low*** tolerance for risks which might negatively impact on its reputation with the community;
- 7.2.1.2. has a ***zero*** tolerance for risks which may result into protests, unrest and public violence;
- 7.2.1.3. has a ***zero*** tolerance for risks which may result in the discontinuation of projects that are critical for service delivery;
- 7.2.1.4. has a ***zero*** tolerance for risks which may result in bad publicity by the media;
- 7.2.1.5. has a ***low*** risk tolerance for the risk of unrealistic and non-credible budgeting that may result in unauthorised expenditure.

7.2.1.6. Has a **zero** tolerance for fraud and corruption risks.

7.2.2. Tolerance of risk towards Compliance objectives: The municipality;

- 7.2.2.1. Has a **zero** tolerance to risks that are in contravention of the MFMA, Municipal Systems Act, and other Acts;
- 7.2.2.2. Does not risk or accept risks (**zero tolerance**) that poses a danger to the environment and that, or may contravene the environment laws of the Republic of Southern Africa.
- 7.2.2.3. Does not tolerate risks (**zero tolerance**) that will result in the late or non-submission of Annual Financial Statements for Audit, Section 71 reports, budget returns and other relevant reports due to be submitted to external regulatory bodies;
- 7.2.2.4. Has a **low** tolerance to risks which may result, in the public viewing the municipality as not upholding the "*Batho Pele*" principles;

7.2.3. Tolerance of risk towards Reporting objectives: The municipality;

- 7.2.3.1. Does not tolerate risks or the risk that quarterly reports and reporting on the SDBIP are inaccurate or inconsistent;
- 7.2.3.2. Has a low tolerance for risks of inaccurate information reported in the Annual Report;
- 7.2.3.3. Has a low tolerance for the late submission of internal reports however, does not tolerate the late submission of reports otherwise required by a law of the Republic of South Africa or any regulation, standard or a practice note issued by any of the external bodies or institutions to which the municipality should report.
- 7.2.3.4. Has a low tolerance for risks compromising the quality of financial reporting.

7.2.4. Tolerance of risks towards Operational objectives: The municipality;

- 7.2.4.1. has a **low** tolerance for the risk that may result in material financial losses;
- 7.2.4.2. has **low** tolerance to the risk of inaccurate billing and customer accounts;
- 7.2.4.3. has a **zero** tolerance to risks that hampers or materially impairs the reticulation of drinking water, sanitation and electricity;
- 7.2.4.4. does not tolerate risks (**zero tolerance**) that pose a danger to the safety, lives or health of its employees or any member of the public in the course of service delivery;
- 7.2.4.5. has a **zero** tolerance to the risk of loss of strategic assets which are especially, critical for service delivery;
- 7.2.4.6. has a **low** tolerance to risks which if they materialise will result in irregular, fruitless and wasteful expenditure;

- 7.2.4.7. has a **low** tolerance for the risk of procuring goods of a poor quality for the purpose of service delivery;
- 7.2.4.8. has a **zero** tolerance for the risk of contamination of natural water sources, purified water in storage facilities;
- 7.2.4.9. has a **low** tolerance for risks resulting in reticulation losses of electricity and water;
- 7.2.4.10. has a **low** tolerance to risks that may result into blockage of sewerage networks and streams;
- 7.2.4.11. has **low** tolerance for the risk of Loss of information resulting from lack of backups, theft or lack of access controls;
- 7.2.4.12. has **zero** tolerance to risk for fraud;
- 7.2.4.13. has a **low** tolerance for risks, which may otherwise compromise the safety of important and highly confidential information.

8. Risk Management Process

The risk management process of the municipality shall include and may not be limited to the following;

- a. Identification of objectives from the IDP and SDBIP,
- b. setting of Related objectives according to the different categories as stated in the risk management strategy (Strategic, Operational, Compliance and Reporting),
- c. Identification of risks linked to risk drivers,
- d. Assess risks identified
- e. Determine what existing controls and measures are in place to manage risks;
- f. Assess such controls against risks, and determine whether there are residual risks;
- g. Assess the residual risk
- h. Determine management action plans to address the residual risk.
- i. Risk monitoring and reporting

9. Risk Identification

9.1. The Chief Risk Officer, in consultation with management, shall perform overall identification of risks continuously.

9.2. The risks must be identified in each of the four major categories being, Strategic, Operational, Project risks and Fraud risks.

10. Risk Assessment

10.1 The Chief Risk Officer shall, assess the likelihood and impact of all risks identified.

10.2 For further analysis, purposes, the Chief Risk Officer may assess the vulnerability of the organisation to an identified risk as well as the velocity, thus so as to reach a conclusion as to how long it will take for the organisation to feel the impact of a risk after it has manifested.



11. Risk Register

- 11.1. All risks identified and assessed must be recorded in a risk register.
- 11.2. All assessment outcomes must be indicated in the risk register for each respective risk.
- 11.3. The Chief Risk Officer on a regular basis must update and maintain the risk register of the municipality.
- 11.4. The risk register should at least contain the following fields; Objective, Description of the risk, risk number, Risk Category, Likelihood, Impact, Velocity, Vulnerability, aggregate risk, residual risk, Existing controls, Management Action plan (Description of action, Date of implementation, Risk owner)

12. Responses to risks identified

- 12.1. Management must ensure that the residual risks of the municipality are managed and are within the acceptable tolerance levels set out in this policy;
- 12.2. Action plans which outlines; the specific action to be taken, responsible person, and action due date, must be developed by management to ensure that the residual risk is adequately managed within the required period. Management must regularly report the progress made on such action plans
- 12.3. The Chief Risk Officer shall evaluate the responses or controls implemented by management in response to risks identified, and shall assess the levels of the residual risks;
- 12.4. The Chief Risk Officer may advise management on control procedures that must be developed and implemented to bring the residual risks within the tolerance levels of risk of the municipality.
- 12.5. All risk responses must be submitted in writing or any other form deemed acceptable according to the determination of the Municipal Manager;
- 12.6. Internal Audit may be requested by the Municipal Manager to verify the effectiveness and adequacy of internal controls implemented by management in response to risk;

13. Risk Management strategy

- 13.1. The municipal manager shall ensure that the municipality adopts and implement a strategy to assure the successful implementation of this policy and enterprise risk management in the municipality.
- 13.2. The strategy shall be reviewed annually with the risk management policy.
- 13.3. Only the Municipal Manager may approve the risk management strategy.
- 13.4. The risk management committee shall on an annual basis review the risk management strategy and provide the Municipal Manager with written recommendations for the approval of the risk management strategy.
- 13.5. The risk management strategy should outline the methodology, which the municipality uses for its risk management and include the following:
 - 13.5.1. a plan of action to improve the Institution's risk management maturity;
 - 13.5.2. a focus on the prevention of fraud and corruption
 - 13.5.3. the Institution's risk management architecture and reporting lines



- 13.5.4. a description of the risk management modality;
- 13.5.5. details of review and assurance of the risk management process

14. Risk Management Implementation Plan

- 14.1. The Chief Risk Officer must on an annual basis at the beginning of the year, review a risk management Implementation plan, which will outline key dates of risk management activities to be implemented during that year.
- 14.2. The plan shall be reviewed and recommended for the approval by the Municipal Manager for implementation.
- 14.3. The plan may be revised during the course of the year but only with the recommendations of the risk management committee and approval by the Municipal Manager.

15. Discrepancies, contradictions and conflicts

- 15.1. This policy does not replace any promulgated law or regulations of the Republic of South Africa. A promulgated law or regulation will take precedence if; any paragraph or requirement of this policy contradicts or conflicts with a promulgated law or regulation.
- 15.2. Any paragraph in this policy contradicting or conflicting with a promulgated law or regulation shall be amended to comply with such law or regulation, which amendment shall be approved only by the council of the municipality.

16. Assurance

- 16.1. The internal Audit activity of the municipality shall provide assurance on risk management by means of an audit of the risk management activity at least on an annual basis. The audit shall be done according to the internal audit standards, practice advisories and position papers of the profession of internal auditors.
- 16.2. The internal Audit shall submit a report to the Audit committee on the outcome of the audit on Risk Management Activities upon which, the Audit committee will advise council on matters of risk management as required by section 166 of the MFMA.
- 16.3. The Auditor General may also provide but limited assurance on the extent to which the municipality complies with relevant sections of legislation dealing specifically with risk management.
- 16.4. Provincial and National Treasury may conduct reviews on the risk management activities of the municipality and, provide assurance on the extent to which the municipality complies with relevant sections dealing specifically with risk management in municipalities.
- 16.5. The municipality may but only with the approval of the municipal manager appoint through its tender processes, an independent consultant to review its risk management processes and express an opinion on the adequacy and effectiveness of such processes.



17. Establishment of risk management committees

- 17.1. The municipal manager must establish a risk management committee, which will assist to execute oversight responsibility over the risk management activities.
- 17.2. The risk management committee shall have a charter, which will outline its responsibility, authority and all other necessary functions.

18. Appointment of Risk Champions

- 18.1. The risk champion is a person with the skills, knowledge, leadership qualities and power of office required to champion a particular aspect of risk management.
- 18.2. The municipality may if there is a need, but is not compelled to appoint risk champions;
- 18.3. The appointment of the risk champions is the sole responsibility of the municipal manager;
- 18.4. Only person employment by the municipality may be appointed as risk champions.
- 18.5. Risk champions may be appointed in respect of each department.
- 18.6. Only persons with the necessary knowledge on the area of risk or who has the skill of risk management may be appointed to champion risks;

19. Reporting and Monitoring

- 19.1. The Chief Risk Officer shall prepare and submit to the risk committee a comprehensive report on the overall risk assessment done immediately after such assessment has been concluded;
- 19.2. The Chief Risk Officer must monitor the effectiveness of risk mitigating strategies on a quarterly basis
- 19.3. The Chief Risk Officer shall on a quarterly basis; report to the risk management committee on the extent to which risk management is implemented in the municipality.
- 19.4. The report must at least indicate progress made on the Risk Management Implementation Plan with reasons why targets on Implementation plan has not been achieved, Risks that remain unaddressed and how such risks may affect the municipality if they materialise.
- 19.5. The Chief Risk Officer shall at least on a monthly basis report in a management meeting, progress made by management in addressing identified risks;
- 19.6. The risk management committee shall monitor the progress and the extent of implementation of risk management in the municipality;
- 19.7. The Risk Management Committee shall on a quarterly basis, submit to the municipal manager a report which outlines work done on risk management and recommendations;
- 19.8. The Municipal Manager shall monitor the overall risk management activity and will report on the implementation of risk management to the council of the municipality.
- 19.9. Risk owners must on a monthly basis submit to the Chief Risk Officer reports, on progress made in addressing risks identified;



20. Reviews, Amendments, Approval and Effective date

- 20.1. Approval of this policy is the sole responsibility of the council. The council shall approve the policy by means of a resolution.
- 20.2. The municipal manager shall review this policy on an annual basis.
- 20.3. This policy must be reviewed and approved before or at the beginning of the new financial year of the municipality;
- 20.4. The policy shall be effective immediately after it has been adopted/approved by council by means of a resolution.

21. Approval

As approved/ adopted by means of council resolution no 140 in an ordinary/special council, held at Kroonstad on the 14. December 2020.

Approved by:



Acting: Municipal Manager

14. December 2020
Date

