

## **POLICY 006/2016 RAADSBELEID**

SUBJECT/ONDERWERP: RISK MANAGEMENT POLICY

REFERENCE/VERWYSING: 3.1.3.3.2.41

RESOLUTION NO/BESLUIT NR: 30.1/06/2016

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### 1. OBJECTIVE OF THE RISK POLICY

The objective of the risk policy is to ensure that a strategic plan is developed that assist management to make informed decisions which will:

- Improve the municipality's performance on decision making and planning;
- Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the municipality is encourage;
- Provide a sound basis for integrated risk management and internal control a components of good corporate governance;
- Promote a reporting system which will facilitate risk reporting; and
- Promote an effective culture of risk assessment.

The improvements and benefits which effective Risk Management should provide are:

- An increased likelihood of achieving the municipality's aims, objectives and priorities;
- Prioritising the allocation of resources;
- Providing key officials with the skills to be confident risk takers.

### 2. APPLICABLE LEGISLATIVE FRAMEWORK

#### 2.1 Accounting Officer

Section 62 (1) (c)(i) of the MFMA requires that:

*"(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all responsible steps to ensure -*

*(c) that the municipality has and maintains effective, efficient and transparent systems -*

*(i) of financial and risk management and internal control."*

#### 2.2 Management, Other Personnel, Chief Risk Officer, Risk Champions

The extension of general responsibilities in terms of Section 78 of the MFMA to all senior managers and other officials of municipalities implies that responsibility for risk management vests at all levels of management and that it is not limited to only the accounting officer and internal audit.

### 2.3 Internal Auditors

Section 165 (2) (a), (b)(iv) of the MFMA requires that:

*"(2) The internal audit unit of a municipality or municipal entity must –*

- (a) prepare a risk based audit plan and an internal audit program for each financial year;*
- (b) advise the accounting officer and report to the audit committee on the implementation on the internal audit plan and matters relating to:*
- (iv) risk and risk management."*

Section 2110 - Risk Management of the International standards for the Professional Practice of Internal Auditing states:

*"The internal audit activity should assist the organisation by identifying and evaluating significant exposures to risk and contributing to the improvements of risk management and control systems.*

*2110. A1 - The internal audit activity should monitor and evaluate the effectiveness of the organisation's risk management system.*

*2110. A2 - The internal audit activity should evaluate risk exposures relating to the organisation's governance, operations, and information systems regarding the:*

- Reliability an integrity of financial and operational information;*
- Effectiveness and efficiency of operations;*
- Safeguarding of assets;*
- Compliance with laws, regulations, and contracts.*

*2110. C1 - During consulting engagements, internal auditors should address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.*

*2110. C2 - Internal Auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organisation."*

### 2.4 Audit Committee

Section 166 (2) of the MFMA states:

*"(2) An audit committee is an independent advisory body which must -*

- (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to -*

*(ii) risk management."*

3. KEY DEFINITIONS

For the purpose of this policy, the following words will be defined as follows:

Term	Explanation
Risk Management	Risk Management can be defined as the identification and evaluation of actual and potential risk areas as they pertain to the municipality as a whole, followed by a process of either termination, transfer, acceptance (tolerance) or mitigation of each risk.
Risk	A risk is something which could: <ul style="list-style-type: none"> <li>• Have an impact by not taking opportunities or not capitalising on corporate strengths,</li> <li>• Prevent, influence the achievement of the set objectives,</li> <li>• Cause financial disadvantage, i.e. additional costs or loss of money or assets, or</li> <li>• Result in damage to or loss of an opportunity to enhance the municipality's reputation.</li> </ul>
Risk Assessment	The overall process of risk analysis and evaluation.
Risk Management Process	The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, treating, monitoring and communicating risks.
Controls	These are the existing processes, devices, practice or other actions that act to minimize negative risks or enhance opportunities.
Risk Register	This is a document record of each risk identified. It specifies a description of the risk, its causes and its impacts; an outline of the existing controls; an assessment of the consequences of the risk should it occur and the likelihood of the consequence occurring, given the controls; a risk rating and an overall priority for the risk.
Impact	This may be defined as the effect to a business process resulting in potential loss or service delivery failure should risk arise.
Likelihood	This may be defined as the probability that an adverse event, which could cause a risk to arise, may occur.

Types of Risk: <ul style="list-style-type: none"> <li>• Financial/Budget Risk</li> <li>• Performance Risk</li> <li>• Political Risk</li> <li>• Legal Risk</li> <li>• Audit Risk</li> <li>• Organisational Risk</li> <li>• Reputation Risk</li> <li>• Information technology risk, or IT risk, IT-related risk</li> </ul>	<p>Overspend, run out of money, failure to pay, etc.</p> <p>Lack of skills and delivery leads to termination.</p> <p>Stakeholder unhappiness e.g. Communities.</p> <p>Moneys not utilized according to regulations.</p> <p>Qualified audit reports reflects very badly on management's performance</p> <p>Lack of skill, succession, capacity, training</p> <p>Branding of the municipality, external image to the community.</p> <p>Is any risk related to information technology</p>
Risk Appetite	Risk appetite looks at how much risk the municipality is willing to accept. There can still be deviations that are within a risk appetite.
Risk Tolerance	Risk tolerance is the willingness of some person or some organization to accept or avoid risk. Risk tolerance looks at acceptable/unacceptable deviations from what is expected.

#### 4. RISK MANAGEMENT PRINCIPLES

- 4.1 The principles contained in this policy will be applied at both corporate and operational levels within the municipality.
- 4.2 The municipality's Risk Management Policy and Strategy will be applied to all operational aspects of the Municipality and will consider external strategic risks arising from or related to other government municipality's and the public, as well as wholly internal risks.
- 4.3 Our positive approach to risk management means that we will not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalizing on corporate strengths.

#### 5. GENERAL PRINCIPLES

- 5.1 All risk management activities will be aligned to corporate aims, objectives and the municipality's priorities, and aims to protect and enhance the reputation and standing of the municipality.
- 5.2 Risk analysis will form part of the municipality strategic planning, business planning and investment /project appraisal procedures.
- 5.3 Risk management will be founded on a risk-based approach to internal control which will be embedded into day to day operations of the municipality.
- 5.4 Managers and staff at all levels will have the responsibility to identify, evaluate and manage or report risks.

- 5.5 Our risk management approach will inform and direct our work to gain an assurance on the reliability of the municipality systems.
- 5.6 We will foster a culture which provides for spreading best practice, lessons learned and expertise acquired from our risk management activities across the municipality for the benefit of the entire municipality.

## 6. PRINCIPLES FOR MANAGING SPECIFIC RISKS

- 6.1 Risk Management in the municipality should be proactive and reasoned. Corporate and operational risks should be identified, objectively assessed, and actively managed.
- 6.2 The aim is to anticipate, and where possible, avoid risks rather than dealing with their consequences. However, for some key areas where the likelihood of a risk occurring is relatively small, but the impact is high, we may cover that risk by developing Contingency Plans. For example, we must develop Business Continuity Plans and or Disaster Recovery Plans. This will allow us to contain the negative effect of unlikely events which might occur.
- 6.3 In determining an appropriate response, the cost of control/risk management, and the impact of risks occurring will be balanced with the benefits of reducing and or managing risk. This means that we should not necessarily set up and monitor controls to counter risks where the cost and effort are disproportionate to the impact or expected benefits.
- 6.4 We also recognize that some risks can be managed by transferring them to a third party, for example by contracting out or by insurance.

## 7. RISK MANAGEMENT STRATEGY

The roles and responsibilities of all stakeholders are clearly defined in the approved risk management strategy.

## 8. RISK ASSESSMENT METHODOLOGY

The risk management processes are clearly defined in the risk assessment methodology.

## 9. MONITORING AND REVIEW

The Risk Management Unit in consultation with the Accounting Office will coordinate an annual review of the effectiveness of this policy as well as all organizational risks, uninsured and uninsurable risks together with the key managers in the municipality. This annual review will take place immediately prior to the development of the annual business and integrated development plans.

Internal Audit will monitor key controls identified in the risk management system as part of the audit plan developed in conjunction with the Accounting Officer, Senior Manager Internal Audit, Risk Management and approved by the Audit Committee.

The municipality will review the risk profile in developing their recommendation to the Council regarding the municipality's risk profile, policy, charter, strategy and methodology.