

## 1. OBJECT OF RISK MANAGEMENT POLICY

The object of this policy is:

- | to addresses key elements of the risk management framework to be implemented and maintained by the municipality, which will allow for the management of risks within defined risk/return parameters, risk appetite and tolerances as well as risk management standards; and
- | to provide a framework for the effective identification, evaluation, management, measurement and reporting of the municipality's risks.

## 2. LEGISLATIVE CONTEXT

Section 62 (1)(c)(i) and (ii) of Municipal Finance Management Act stipulates that 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 that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards.

On the other hand, section 165 (2)(a)and(b)(iv) requires that the internal audit unit of a municipality or municipal entity must prepare a risk-based audit plan and an internal audit program for each financial year and advise the Accounting Officer and report to the Audit Committee on the implementation of the internal audit plan and matters relating to risk and risk management.

## 3. DEFINITION OF RISK

This Policy adopts a broad definition of risk as follows:

*It is the chance of an event occurring that will have an impact (threat or opportunity) upon the achievement of the municipality's business objectives.*

Risk is often created by:

- | Changes that takes place within the Municipality (i.e. people, systems, processes, technology, legislation and regulations);
- | External influences (i.e. economics, availability of human resources and damages);
- | Operations and complexity of processes;
- | Volume of activities within a Municipality; and
- | The nature of the control environment.

#### **4. RESPONSIBILITY FOR RISK MANAGEMENT**

Risk management is a key responsibility of the Accounting Officer. Treasury Regulations assign responsibilities for aspects of risk management to the Chief Financial Officer, the Risk / Internal Audit function and the Audit Committee, each of which are accountable to the Accounting Officer for the discharge of their responsibilities.

Risk management is a continuous and proactive process that relates to all organisational activities at all levels. All managers must have a thorough understanding of the risks involved in the activities under their control and actively work towards managing these risks. Therefore each manager has a responsibility toward risk management.

#### **5. ELEMENTS OF RISK MANAGEMENT**

Risk management is the process by which the Accounting Officer, Chief Financial Officer and the other senior management of Ngwathe Local Municipality shall pro-actively, purposefully and regularly, identify and define current as well as emerging business, financial and operational risks and identify appropriate, business and cost effective methods of managing these risks within the municipality, as well as the risk to the stakeholders.

King Code of Corporate Governance III provides that elements of risk can include source or hazard, event, consequence and probability

The following are the dominant elements that will characterize risk management within the municipality:

- a) Assessing the nature and extent of the risks associated with the municipality’s operations.
- b) Deciding an acceptable level of loss or degree of failure.
- c) Deciding how to manage (minimise) the risk.
- d) Monitoring, reporting and from time to time re-assessing the level and implications of the risk exposure.

**6. RISK MANAGEMENT FRAMEWORK**

This policy is the starting point in the risk management framework and ensures that risk management becomes the concern of line management and everyone in the municipality and that risk management practices are consistent across the whole municipality. The risk management framework adopted by this policy is comprised of four key elements as illustrated below.

RISK ELEMENT	DETAILS
Risk Identification	All activities associated with the municipality’s business, both existing and new should be assessed in order to identify material current as well as emerging risks, which threaten the achievement of objectives or may cause material loss or damage or business continuity implications for the stakeholders or reputation risks for the municipality
Risk Measurement	the risks associated with any new activities will be evaluated in order to determine the potential exposure to the municipality all material existing risks will be re-evaluated on at least an annual basis all risks will be evaluated on a quantitative basis and if this is not appropriate, qualitative factors will be adopted
Risk Management	appropriate risk management will enable the municipality to both minimise loss and optimise opportunities

	<p>the identification and monitoring of risk is the responsibility of the Accounting Officer but the Chief Financial Officer and Heads of Departments also accept joint responsibility</p> <p>the Accounting Officer shall co-ordinate the risk management system, monitoring of results.</p> <p>the operation of risk mitigation procedures is the responsibility of the Accounting Officer and the Chief Financial Officer with support from the Heads of Departments</p>
Reporting	<p>all new risks with a potential financial exposure greater than an agreed amount as set between the Accounting Authority, Accounting Officer and the Chief Financial Officer or with a high or greater qualitative rating, and any material changes to the existing risk profile shall be reported to the Accounting Officer on a regular basis</p> <p>risks should be reported using the following key categories:</p> <ul style="list-style-type: none"> <li>a) Safety / security</li> <li>b) Service Delivery</li> <li>c) Human Resources</li> <li>d) Strategic</li> <li>e) Environmental</li> <li>f) Financial</li> <li>g) Reputation</li> <li>h) Legal compliance</li> <li>i) Political</li> <li>j) Health</li> </ul>

**7. ACCOUNTABILITY FOR RISK MANAGEMENT**

The detailed line of accountability for risk management shall be fully aligned with the municipality’s management structure. Accordingly, the approvals, responsibilities and accountabilities applicable to the identification, evaluation/analysis, treatment, results and

reporting of the municipality's risks shall be attributed to the Accounting Officer and the Chief Financial Officer.

The Chief Financial Officer shall be responsible for ultimate sign off of all risk information to the municipality and review prior to any sign-off.

## **8. RISK IDENTIFICATION AND TOLERANCE**

### **8.1 Risk identification**

The municipality shall consider and assess the risk implications of all actions it undertakes in relation to both existing and proposed activities, systems and procedures. All risks identified will be evaluated and documented, together with the processes which mitigate against those risks, and who is accountable for them.

### **8.2 Maximum risk exposure / risk tolerance**

The municipality shall accept a commercial level of risk such that the long-term sustainability of the municipality is reasonably assured.

Where new risks arise which exceed the stipulated measures set by the Accounting Officer and the Chief Financial Officer, they will be:

- | evaluated as stipulated in this policy;
- | immediately reported to the Accounting Officer;
- | monitored through the risk management process; and
- | promptly reported to the Chief Financial Officer together with a management strategy of the identified risk.

The proposed management strategy could fall into one or more of the following categories:

- a) accept the risk;
- b) reduce the risk
- c) spread the risk
- d) transfer the risk
- e) avoid the risk
- f) monitor the risk

## **9. RISK MEASUREMENT**

Risk shall be assessed by considering estimates of likelihood, severity and consequence.

Risk analysis may be undertaken using both quantitative and qualitative measures. Where possible all risk exposures should be measured using a quantitative or financial outcome and/or human resource implications.

Where quantitative measures are not possible, risks shall be measured using the relevant qualitative criteria.

## **10. REPORTING**

### **10.1 Frequency and format**

All new risks and changes to existing risks shall be captured into the risk management system in the month they are identified.

The Chief Financial Officer shall collect and aggregate the information and shall report to the Accounting Officer, quarterly, regarding the risk profile of the municipality.

The Accounting Officer shall report to the council on a regular basis, both the current risk profile of the municipality and a summary of any major changes since the last report.

## 10.2 Reporting categories

The categories of risk to be reported to the Accounting Officer and the Council are as follows:

- |                      |                     |
|----------------------|---------------------|
| a) Safety / security | f) Financial        |
| b) Service Delivery  | g) Reputation       |
| c) Human Resources   | h) Legal compliance |
| d) Strategic         | i) Political        |
| e) Environmental     | j) Health           |

## 11. MANAGEMENT / TREATMENT

Risk treatment shall involve identifying the range of options for treating risk, assessing those options, preparing risk treatment plans and implementing those plans in the most business as well as cost effective manner.

The selection and implementation of appropriate options for dealing with risk shall be the responsibility of the Senior Management, subject to the Chief Financial Officer ratifying or amending the strategy proposed by management as required for material risks that have been reported to them.

Where current risk mitigation controls are deemed ineffective and therefore warrant action, management shall prepare appropriate control improvement and action plans. Included in each control plan will be the allocation of accountabilities, expected outcomes and action dates for the implementation and measurement of the control improvement plan.

The following guidelines shall be followed in the management of individual risks:

- | the annual cost of risk control should not exceed the gross annual risk cost;
- | the municipality does not seek to eliminate all risks nor be a high risk taker - moderate levels of risk are acceptable; and

- | the resources allocated to risk treatment should be given priority in the areas of safety, health, environmental, customer service, operational and financial.

## **12. MONITORING / REVIEW**

The Chief Financial Officer will coordinate an annual review of the effectiveness of this policy as well as all organisational risks, uninsured and uninsurable risks together with the key managers in the municipality. The annual review shall take place immediately prior to the development or review of integrated Development Plan so that it can have due regard to the current as well as the emerging risk profile of the municipality.

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

## **13. LIABILITIES AND RISKS PAYABLE IN FOREIGN CURRENCIES**

The Municipal Management Finance Act No 56 of 2003 determines that no municipality or municipal entity may incur a liability or risk payable in a foreign currency. This however does not apply to debt regulated in Section 47 of the Municipal Management Finance Act or to the procurement of goods or services denominated in a foreign currency, but the Rand value of which is determined at the time of the procurement, or where this is not possible and risk is low, at the time of payment.

## **14. INTERNAL AUDIT UNIT**

The internal audit unit of the municipality shall be responsible for the following:

- a) Preparing a risk based audit plan for each financial year;
- b) Preparing an internal audit program for each financial year;

- c) Advising the Accounting Officer and reporting to the Audit Committee on the implementation of the audit plan; as well as any matters on:
- | Internal audit;
  - | Internal controls;
  - | Accounting procedures and practices;
  - | Risk and risk management;
  - | Performance management;
  - | Loss control;
  - | Compliance with the Municipal Finance Management Act No 56 of 2003; and
  - | Any other applicable legislation.
- d) Perform any other such duties as may be assigned to the unit by the Accounting Officer.

## **15. AUDIT COMMITTEE**

An audit committee shall be an independent advisory responsible for the following:

- a) Advising the Council, Municipal Manager and Management staff on the following matters:
- | Internal audit;
  - | Internal financial controls;
  - | Accounting policies;
  - | Risk management;
  - | Adequacy, reliability and accuracy of financial reporting and information;
  - | Performance management;
  - | Effective governance;
  - | Compliance with the Municipal Finance Management Act No 56 of 2003;
  - | Compliance with the Division of Revenue Act; and any other applicable legislation.
  - | Performance evaluation;
  - | Any other issues referred to it by the municipality.
- b) Review the annual financial statements;
- c) Respond to the Council on any issues raised by the Auditor General;

- d) Carry out any investigations into the financial affairs of the municipality as the Council may request.

The audit committee may have access to the financial records and any other relevant information of the municipality.

The audit committee must liaise with the internal audit unit and the person designated to audit the financial statements of the municipality.

The audit committee must consist of at least three persons with appropriate experience, the majority of whom may not be in the employ of the municipality.

The audit committee must meet at least four times a year.

The council must appoint the members of the audit committee. One of the members who is not in the employ of the municipality must be appointed as the chairperson of the committee.

No councillor may be a member of the audit committee.