

# **MATJHABENG LOCAL MUNICIPALITY**



## **RISK MANAGEMENT POLICY 2018/19 - 2020/2021**

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## 1. INTRODUCTION

Risk Management Policy is a clear, simple statement of how the municipality intends to conduct its services, actions or business with regards to risk management. It provides a set of guiding principles to help with decision making. This policy has been developed in response to the following legislative requirements:

**The Constitution of the RSA Act 108 of 1996 Section 152- Objects of local government**, confers the following areas of responsibility on local municipalities –

- a) to provide democratic and accountable government for local communities;
- b) to ensure the provision of services to communities in a sustainable manner;
- c) to promote social and economic development;
- d) to promote a safe and healthy environment; and
- e) to encourage the involvement of communities and community organisations in the matters of local government.

**Municipal Finance Management Act (Act No. 56 of 2003 sections 62(1) (c))** It requires the Accounting Officer to ensure that the municipality effective, efficient and transparent systems of financial and risk management that is supported by a system of internal control.

**Municipal Finance Management Act Section 165(2) (b) (IV)** requires that the Internal Audit function, which every municipality must have, must advise the Accounting Officer and the audit committee on risk and risk management, amongst other legislated responsibilities.

**Municipal Systems Act (No. 32 of 2000)** mitigates risk by ensuring that municipalities: Have an inclusive system of municipal governance by setting out the community consultation processes; Implement their Integrated Development Plans (IDP) through a performance management system to support and monitor the IDP implementation process; Develop appropriate policies regarding indigence, credit control and tariffing. Policy documents must be formulated and approved by Municipal Councils.

**2. DEFINING RISK WITHIN THE CONTEXT OF THE MUNICIPALITY**, risk is defined as any threat of an event or action can adversely affect the organisation's ability to achieve its objectives and execute its strategies' successfully.

Risk can be viewed from three distinct perspectives:

- Risk as opportunity
- Risk as an uncertainty
- Risk as a hazard.

**Risk as an opportunity** is about viewing risk from the opportunity perspective recognises the inherent relationship between the risk and return. Managing risk as an opportunity necessitates actions being taken by line managers to achieve positive gains. Opportunity analysis creates insights that may be used by line managers to increase the likelihood of success and decrease the likelihood of failure.

**Risk as an uncertainty** is about considering risks from this perspective, business units must determine how they can be proactive in preventing uncertainty future events from having a negative impact. The management of uncertainty seeks to ensure that a business unit's actual performance

falls within a defined range. The management of uncertainty risk is proactive- one must anticipate the impact of change and establish controls/processes designed to mitigate its effects on the operations of the business unit.

**Risk as a hazard** is risks being viewed as the possibility of a negative event taking place, or the fact that the negative events taking place, or the fact that the negative events include financial loss, fraud, theft and damage to assets

### **3. POLICY INTENTION**

The aim of this policy is to ensure that the Municipality makes informed decisions with regard to the activities that it undertakes by appropriately considering both risks and opportunities.

The intention of this policy cannot be to eliminate all risk to the municipality. It is to assist personnel to manage the risks involved in all activities to maximise opportunities and minimise adverse consequences. Effective risk management requires:

- A systematic process that should be used when making decisions to improve the effectiveness and efficiency of managing risks
- Taking action to mitigate risks
- Identifying and exploiting opportunities identified during risk management processes
- Risk management planning
- Effective communication
- Balance between the cost of managing risks and the anticipated benefits.
- Systems, (Structures, Risk, Register, Risk Management Standard Operating Procedure, Information Technology, etc

### **4. POLICY STATEMENTS**

The Municipality is committed to the effective risk management and treatment of risk in order to achieve the municipality's objectives.

In terms of Section 62(1)(c)(i) of MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and for this purpose must take all responsible steps to ensure that the Municipality has and maintains: *Effective, efficient and transparent systems of financial and risk management and internal control.*"

It is important that employees become aware of the risks associated with their area of work and must manage these risks to be within tolerance level by using risk management response strategies outlined in the municipal risk management strategy.

The Accounting Officer has committed the Matjhabeng Local Municipality to a process of risk management that is aligned to the principles of good corporate governance

Risk management is recognised as an integral part of responsible management and the municipality therefore adopts a comprehensive approach to the management of risk. The features of this process are outlined in the Municipality's Risk Management Strategy. It is expected that all departments /

sections, operations and processes will be subject to the risk management strategy. It is the intention that these departments / sections will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

Effective risk management is imperative to the municipality to fulfil its mandate, the service delivery expectations of the public and the performance expectations within the Institution.

The realization of our strategic plan depends on us being able to take calculated risks in a way that does not jeopardize the direct interests of stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our service delivery environment, as well as make informed decisions under conditions of uncertainty.

We subscribe to the fundamental principles that all resources will be applied economically to ensure:

- The highest standards of service delivery;
- A management system containing the appropriate elements aimed at minimizing risks and costs in the interest of all stakeholders;
- Risk Management as a performance management indicator and change agent;
- Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholder's expectations;

An entity wide approach to risk management will be adopted by the Institution, which means that every key risk in each part of the Institution will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into the Institution's systems and processes, ensuring that our responses to risk remain current and dynamic.

- Compliance with relevant legislation, and fulfil the expectations of employees,
- Communities and other stakeholders in terms of corporate governance.

The responsibility to ensure effective management of risk in the Matjhabeng Local Municipality rests with all employees. Our commitment to risk management is an expression of our commitment to Batho Pele principles.

In line with the King Report on good corporate governance, the Council of Matjhabeng Local Municipality's Council (through the Mayoral Committee) is committed to:

- Assuming responsibility for the effective implementation of risk management measures
- Ensuring that the risk management processes adopted by the municipality propel the municipality to greater levels of service delivery excellence
- Ensuring effective communication with the senior management of the municipality (through the Municipal Manager) to ensure that effective policies and strategies are put into place
- Partner with the administration in ensuring that there are effective controls and interventions aimed safeguarding the best interests of Council.

In order to ensure this, Council will ensure that there is a continuous assessment of risks facing Council in order to best meet these challenges and take advantage of opportunities that present themselves. Effective risk management processes are critical in ensuring that the Municipality achieves its objectives as the Integrated Development Plan (IDP) as well as the various service delivery objectives of the Municipality.

## **5. POLICY OBJECTIVES**

5.1 To explain Municipality's approach to risk management and ensure that it has a consistent and effective approach to risk management;

5.2 To ensure that the Municipal culture and processes encourage the identification assessment and treatment of risks that may affect its ability to achieve its objectives;

5.3 To explain key aspects of risk management;

5.3 To clearly indicate the risk management reporting procedures;

5.4 To hold executive, management and officials accountable for the implementation of risk management on their area of responsibility;

5.5 To create an environment where all the Municipal employees take responsibility for managing risk;

5.6 To create a more risk aware organizational culture through enhanced communication and reporting of risk

5.7 To improve corporate governance and compliance with relevant legislation;

5.8 The implementation of this policy will provide the Municipality with a basis and a framework for:

- more confident and rigorous decision-making and planning;
- better identification of opportunities and threats;
- pro-active rather re-active management;
- more effective allocation and use of resources;
- improved management and reduction in loss and cost of risk;
- improved stakeholder confidence and trust;
- a clear understanding by all staff of their roles, responsibilities and authorities for managing risk.

## **6. Communication and consulting**

Communication and consultation at all stages of the risk management process will be done on an ongoing basis and will be structured at all levels of management, staff, and provincial and national government, consumers and suppliers:

- The risk management policy and strategy will be communicated to all employees as well as relevant stakeholders using communication methods that will suit all of them.
- Quarterly risk management progress will be done through consultation with and thereafter communicated to relatives' risk champions.
- Once a year, the Municipality will undertake a thorough reassessment of its risks at all levels using the following methodology. Risk workshops, interviews, questionnaires and surveys, research, control and risk assessments.
- Risk management implementation plan will undertake to have activities that will enhance effective communication and consultation for risk management.
- In addition, communication and consulting will be ensured through the various responsibilities of risk management stakeholders.

## **7. Risk Monitoring and Review**

- The Risk Management Committee must monitor the handling of key risks by programme managers as in line with the charter. (Key performance indicators must therefore be developed by the committee to facilitate the monitoring of each key risk).
- The Chief Risk Officer must monitor the effectiveness of risk mitigating strategies on quarterly basis;
- The internal audit unit must provide independent assurance on the effectiveness of risk management activities in line with their internal audit coverage plan.
- The success of risk management depends on the availability of reliable information and effective communication at various levels. Pertinent information should be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities.
- Information is needed at all levels to identify, assess and respond to risks. Management must process and refine large volumes of data into relevant and actionable information.
- Risk information is to be maintained on a risk management register. The register will be maintained by the Risk Management Unit and Managers. Management is responsible for ensuring that the register is complete, relevant and accurate.
- For each risk the following minimum information is to be maintained:

- a) Department

- b) Unit
- c) Objective
- d) Risk Description
- e) Root Cause
- f) Consequences of risk
- g) Inherent risk rating
- h) Current Controls
- i) Residual risk rating
- j) Action to improve management of the risk
- k) Target date
- l) Risk Owner

For monitoring the following information should be included:

- a) Progress on the implementation of the action plan
- b) Percentage completed
- c) Reasons for not reaching the target date.

The risk management committee will report to the Accounting Officer as depicted in the risk management policy.

## **8. PRINCIPLES**

- Risk management is recognised as an integral part of management and therefore, Municipality adopts a comprehensive approach to the management of risk. The features of this process are outlined in the Municipal Risk Management Strategy. It is expected that all Components' operations and processes will be subject to the risk management strategy. It is the intention that these components work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.
- Risk management must be embedded in the strategic planning of the municipality.
- As risk management is necessary for planning and decision making. Risk management must be embedded in all the decision-making processes. Before decision is taken, the risks it poses must be identified.
- The Municipal risk tolerance level must be determined by top management and is outlined in the Risk Management Strategy.
- All personnel must be willing and able to take calculated risks to achieve their own and the Municipal objectives and to benefit the municipality. The associated risks of proposed actions and decisions must be properly identified, evaluated and managed to ensure that exposures are acceptable.
- The Municipality will conduct a risk assessment on an annual basis with a review or re-assessment of the risks conducted on quarterly basis to ensure maximum mitigation thereof.
- Risks will be owned and managed by the Units where the risk resides.



- This policy is subject to an annual review in line with risk management framework.

## **9. REPORTING**

### **9.1 REPORTING BY THE CHIEF RISK OFFICER**

- The Risk Owners must submit monthly reports on risk management activities in their units to the Chief Risk Officer.
- The Chief Risk Officer will submit a quarterly report to the Risk Management Committee who will submit to the Chief Audit Executive. The Chief Audit Executive will then submit the report to the Audit Committee, on risk management activities not limited to the following:
  - What has been done to date to implement the control measures in different units,
  - The effectiveness of the control measure in addressing / eliminating / managing the identified risks.
  - Any new potential risks that may arise in different units.
  - To what extent a culture of risk management has been implemented in the Municipality.

### **9.2 REPORTING BY THE RISK MANAGEMENT COMMITTEE**

- The Risk Management Committee will submit a quarterly report to the Accounting Officer that will outline the work performed by the committee in that specific quarter and must consider the responsibilities outlined in the risk management committee charter

## **10 FRAUD MANAGEMENT**

The Chief Risk Officer will develop Fraud Prevention Plan and be reviewed by risk management committee annually.

The Accounting Officer will approve the fraud prevention plan of the Municipality.

**Fraud prevention plan covers but not limited to the following:**

- Executive Summary by Accounting Officer;
- Objective of the fraud prevention plan;
- Definition of fraud that the Department subscribes to;

- Fraud prevention and detection measures;
- Fraud implementation plan;
- Fraud indicators and warning signs;
- Fraud risk management;
- Fraud reporting and
- Fraud response plan.

The plan should be submitted for review and recommendation to the Risk Management Committee and approval by the Accounting Officer.

## **11 POLICY ADMINISTRATION**

11.1 The effectiveness of the policy will be reviewed after three years.

11.2 The amendments will be sent to the Risk Management Committee for recommendation and to Accounting Officer for approval.

## **12 CREATING AWARENESS OF THE POLICY**

It is the responsibility of the managers to ensure that all employees under their control are made aware of the existence, implementation and adherence to the Risk Management Policy.

## **13 ADOPTION OF THE POLICY**

Adopted by:

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Municipal Manager (Mr E. T. Tsoaeli)

\_\_\_\_\_

Date

\_\_\_\_\_

Executive Mayor (Cllr Nkosinjani Speelman)

\_\_\_\_\_

Date