MATJHABENG LOCAL MUNICIPALITY

RISK MANAGEMENT POLICY 2015/16

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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 Section62(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. RISK MANAGEMENT FRAMEWORK

Risk management framework provides a disciplined and structured process that integrates information and risk management activities into a step by step process on best to identify, analyse, evaluate and monitor those activities. The municipality applies the ISO 3100 framework and National Treasury guidelines.

6.1 STEP – 1: Establish the context

The Accounting Officer is responsible for ensuring that the Institutional environment supports the effective functioning of risk management.

Creating an enabling environment and establishing context is the foundation of risk management, it provides discipline and structure.

6.1.1 Profile the context

The risk assessment processes begin with the profiling of the Municipality context. The outputs of assessing the process of profiling the municipality's context should be documented, be a summary of the internal, eternal and risk management environment and should include amongst others:

- Business environment;
- Total size of the core / support services;
- Key players;
- Service portfolios;
- Key suppliers; and
- Market's driving forces.

6.1.2 Objective setting and Profile of the objectives of the directorates / departments

Objectives must exist before management can identify potential events affecting their achievement. The Accounting Officer/Council should establish objectives that are consistent with the municipality's constitutional mandate so that it services are appropriate, economical, efficient and equitable.

Management has in place a process to set objectives and that the chosen objectives support and align with the municipality's mission and are consistent with its risk appetite. Strategic, operational and project objectives will be used in the risk identification process. Such objectives will be derived from the municipality's integrated development Plan (IDP) and Service delivery implementation plan (SDBIP). Therefore risk management will ensure that the organization has and maintains an effective process to identify risks inherent in the chosen objectives.

The profile of the individual directorates / departments objectives should take into *consideration:*

- Revenue and expenditure targets;
- Human Resource targets
- Infrastructure Projects targets ;
- Communication targets;
- Local economic development targets;
- Integrated development planning;
- Corporate governance targets;
- Consumer objectives and targets;
- Socio economic targets; and
- Other business objectives.

6.1.3 Risk Management Environment and Profile the stakeholders of the Municipality

In order to ensure the inclusion of all the factors impacting on Risk Management within the Municipality it is important to identify the environment within which the municipality operates. Risk management environment has altered substantially and requires a complete review of current polices, practices and assumptions.

Factors within the municipal environment that impact directly on how the municipality will address risk management are;

- Legislation and guidelines
- Unfunded mandates
- The whole community including residents, businesses, farmers, government, visitors, ward committees, staff, etc.
- National Government, Free State Provincial Government and Lejweleputswa District Municipality
- Third party services providers such as Eskom
- The local, national and international economy
- Natural disasters and natural assets (gifts)
- Assets (infrastructure, land, buildings, etc)
- Affordability (budget)
- Skill levels (internal and external)
- Systems (enterprise risk management architecture such as Information Technology, fleet management, debt collection, Procurement, etc)
- King (I,II,II)
- Some of these factors are compulsory, others meet good governance or best practice principles and some are inherent to Matjhabeng Local Municipality. Although municipalities are of a similar nature and are responsible to deliver the same basic services they vary due to unique geographical, social and political nuances and cannot be addressed in the same manner across the whole of South Africa.

Stakeholders of the municipality may include the following:

- Community;
- Councillors;
- Consumers;
- Business;
- Provincial Government;
- Employee organizations;
- Assurance Providers
- Preferred suppliers; and
- Professional bodies.

6.1.4 Map the Municipality's strategy

The Municipality's strategy must be specifically verified and interpreted in the context of risk. This is incorporated in the 5 year integrated development plan. The future direction and intent of the Municipality must be understood. The Municipality may be seeking to differentiate.
For example, investments into technology (for example, upgrading of the IT system) may be the strategic direction of the Municipality. Growth tactics must be profiled. When mapping the strategy, risk appetite must be considered where the desired return from a strategy should be aligned with the Municipality's risk appetite. Different strategies will expose the Municipality to different risks.

6.1.5 Profile the key processes

The key activity chains must be profiled and documented. The service delivery processes must be profiled. The drivers of service delivery processes and the key features of these processes must be identified and interpreted. For example:

- The processes that generate cash must be profiled.
- The drivers of the Municipality's processes and the key features of these processes must be identified and interpreted.
- Incoming actions such as recruitment, purchasing and procurement must be identified.
- Outgoing processes such as public relations, investments and branding should be profiled.
- Inherent and cyclical processes such as budgeting, information systems and staffing matters must be incorporated into the Municipality's risk profile.

The deliverable of steps 1.1.1 to 1.1.4 will result in a business / dependency profiles of the Municipality and its related activities.

The next part of the risk management process is to identify potential events will negatively impact the organisation from achieving its objectives.

Risk Assessment - is a systematic process identify and to quantify or qualify the level of risk associated with a specific threat or event, to enrich the risk intelligence available to the Institution. The main purpose of risk assessment is to help the municipality to prioritise the most important risks as the Institution is not expected to have the capacity to deal with all risks in an equal manner. Risks will be assessed on the basis of the likelihood of the risk occurring and the impact of its occurrence on the municipality's objective(s) it is likely to affect.

6.2 Step – 2: Risk Identification

6.2.1 Risk identification is a deliberate and systematic effort to identify and document the Institution's key risks.

The objective of risk identification is to understand what is at risk within the context of the Institution's explicit and implicit objectives and to generate a comprehensive inventory of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

During of risk identification process, management considers external and internal, as well as financial and non - financial factors that influence the entity's policy and management agenda. Identifying major trends and their variation over time is particularly relevant in providing early warnings.

Some external factors to be considered for potential risks include:

- Political: the influence of international governments and other governing bodies;
- Economic: international, national markets and globalizations;
- Social: major demographic and social trends, level of citizen engagement; and
- Technological.

Internal factors reflect management's choices and include such matters as:

- The overall management framework;
- Governance and accountability frameworks;
- Level of transparency required;
- Values and ethics;
- Infrastructure;
- Policies, procedures and processes;
- Human resource capacity; and
- Technology.

An entity's risk identification methodology will comprise a combination of techniques together with supporting tools. Risk identification techniques look to both the past and the future. Techniques that focus on past events and trends consider such matters as payment default histories, overspending patterns, fraud and corruption and historic poor service delivery. Techniques that focus on future exposures consider such matters as shifting *demographics, new laws and regulations and the impact of HIV on the resident population.*

Events potentially either have a negative impact, a positive impact or both. Events that have a potentially negative impact represent risks, which require management's assessment and response. Accordingly, risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives.

Events with a potentially positive impact represent opportunities or offset the negative impact of risks. Those representing opportunities are channelled back to management's strategy or objective-setting processes, so that actions can be formulated to seize the opportunities, whereas events potentially offsetting the negative impact of risks are considered in management's risk assessment and response.

6.2.2 Possible methods of identifying risks:

- Interview/focus group discussion;
- Audits or physical inspections;
- Brainstorming;
- Survey, questionnaires, Delphi technique;
- Examination of local and/or overseas experience;
- Networking with peers, industry groups and professional associations;
- Judgmental – speculative, conjectural, intuitive;
- history, failure analysis;
- Examination of past MLM and other public entity experiences;
- Incident, accident and injury investigation;
- Databank of risk events which have occurred;
- Scenario analysis;
- Decision trees;
- Strengths, weaknesses, opportunities, threats (SWOT) analysis;
- Flow charting, system design review, systems;
- *Analysis, systems engineering techniques e.g. Hazard and Operability* (HAZOP) studies;
- Work breakdown structure analysis; and
- Operational modelling.

6.2.3 A risk has two attributes that must be articulated as following:

- A cause (i.e. any event or action)
- An effect (i.e. impact on achievement of business objectives)

6.24 Possible Sources of Risk

- New activities and services;
- Disposal or cessation of current activities;
- Outsourcing to external service providers;
- Commercial/legal changes;
- Changes in the economic conditions;

- Socio-political changes, like elections;
- *Political interventions;*
- National and international events;
- Personnel/human behaviour;
- Behaviour of contractors/private suppliers;
- Financial/market conditions;
- Management activities and controls;
- Misinformation;
- Technology/technical changes, i.e. new hardware and software implementations;
- Operational (the activity itself) changes;
- Service delivery interruption;
- Occupational health and safety;
- Property/assets;
- Security (including theft/fraud/impersonation);
- Natural events; and
- Public/professional/product liability

6.2.5 Focus points of risk identification

Strategic risk identification to identify risks emanating from the strategic choices made by the Institution, specifically with regard to whether such choices weaken or strengthen the Institution's ability to execute its Constitutional mandate

Operational risk identification to identify risks concerned with the Institution's operations. Operational risk identification should seek to establish vulnerabilities introduced by employees, internal processes and systems, contractors, regulatory authorities and external events;

Project risk identification to identify risks inherent to particular projects-project risks should be identified for all major projects, covering the whole lifecycle and for long term projects, the project risk register should be reviewed at least once a year to identify new and emerging risks.

6.2.6 Risk classification

In order to integrate risk management into other management processes, the terminology should be easily understandable by program managers. By developing a common Municipality risk language, program managers can talk with individuals in terms that everybody understands.

An important step in developing a common Municipality risk language is to classify risks identified in various categories.

The categories to be used by the municipality are as follows:

Strategic Issues	• Corporate governance • Business continuity planning • Service delivery • Management responsibility • Streamlined procedures • Communication / Public Relations / Reputational Management Organisational Structure / Change Management
External risks - These risks are caused by external factors. MLM cannot control these risks but needs to evaluate these risks and implement the appropriate actions.	• External stakeholders • Financial markets • Economic environment
Technology risks - Technology risk is the risk of obsolescence of infrastructure, deficiency in integration, failures/inadequacies in systems/networks and the loss of accuracy, confidentiality, availability and integrity of data	• Succession planning of applications • Disaster recovery • Systems development and testing • Software and hardware • Programme changes • General access to data and programmes
Financial risk - Financial risk is the risk that the MLM will encounter difficulty in raising funds to meet commitments and the inadequate management of the finance function.	• Budget and forecasting • Fixed asset control • Internal control • Financial reporting • Misappropriation of assets and funds
Human Resources - Human resource risk is the risk of actions to/by employees.	• Recruitment • Remuneration • Training, skills and career planning • Performance appraisal • Succession planning • Equity • Acting in a way not appropriate for professionals • Transgression of staff rules
Legal risk - Legal risk is the risk that the MLM will be exposed to contractual obligations which have not been provided for or the inability to effect the required legal finding and action to protect the financial market.	• Contracts • Regulatory / Statutory Compliance • Litigation • Enforcement • External role players • Documentation availability and completeness

Operational risk - Operational risk is the risk that there is a loss as a result of failures/inadequacies in e.g., procedures, office space, personnel, electricity supply, and business relations. This includes losses as a result of errors, *omissions and delay.*	• Service delivery • *Business processes* • Regulatory trends • Procurement / Budgeting / Funding / Project Management • Fraud • Methods and techniques
Natural hazards	Risks arising out of natural hazards such as floods, wildfires, earthquakes, hurricanes, thunderstorms, or snowstorms.
Acts or omissions by third parties	Risks arising from the acts or omissions of those outside the government
Acts, laws or regulations	Risks arising from the implementation of laws and regulations that apply to the government and affect how it conducts its business.
Dependence on outside suppliers	Risks arising from the municipality's dependence on outside suppliers of goods, services, and utilities.

6.3 STEP – 3: Risk analysis

Risk analysis determines existing controls and analyse risk in terms of impact and likelihood in the context of those controls. This provides information on what action needs to be taken on the risks that have been identified.

6.3.1 The first thing that needs to be done is to ascertain the effectiveness of existing controls that act to mitigate negative risks or enhance positive risks. Such controls may take the form of policies, procedures, management activities and instructions. The gap between existing control effectiveness and desired effectiveness must result in an action plan.

6.3.2 The municipality has developed their controls to complement each other and ensure mitigation of risks to an acceptable level. The categories of controls are as follows:

6.3.3 **Preventative Controls** are controls that can deter undesirable events from occurring

Examples:

Authorisation:

- Transition approvals and delegation of authority

Physical:

- Access controls

- Security of assets

Segregation:

- Authorisation vs custodial function

6.3.4 **Detective controls** are designed to detect undesirable events that have occurred

Example:

Accounting:

- Completeness
- Accuracy
- Validity
- Reconciliations
- Control Accounts
- Documentation Controls

Physical/logical Access:

- Access controls
- Security of records and data

Supervisory:

- Oversight
- Accountability

Management information:

- Budget
- Monthly management accounts
- Analytical review

6.3.5 **Corrective Controls** are controls that would detect and automatically rectify or irregularity

System control:

- Data recovery
- Data updates

6.3.6 Once existing controls have been identified their adequacy and effectiveness have been assessed using the following perceived control assessment criteria risk and impact analysis will be done:

Perceived controlled effectiveness criteria designed to measure the effectiveness of the current controls.

Effectiveness Category	Category definition	Factor

Very good	Risk exposure is effectively controlled and managed	20%
Good	Majority of risk exposure is effectively controlled and managed	40%
Satisfactory	There is room for some improvement	65%
Weak	Some of the risk exposure appears to be controlled but there are major deficiencies	80%
Unsatisfactory	Control measures are ineffective	90%

The municipality will place reliance on both external and internal audit assessments of internal control effectiveness.

6.3.7 The National Treasury Risk Management Frameworks prescribes the following methodologies for risk analysis and such methodologies have been adopted by the municipality in this effect.

<u>Impact categories</u>: Per risk identified, the impacts are assessed for each of the following categories:

Financial resources	The impact of an event on the Municipality's financial stability and ability to maintain funding for the activities that is critical to its mission.
Material resources	The impact of an event on the material resources—such as assets and property—that a government uses in the activities that are critical to its mission.
Human resources	The impact of an event on the Municipality's workforce.
Service delivery	The impact of an event on the municipality's ability to deliver services.
Public perception of entity	The impact of an event on the public's perception of the Municipality and on the degree of cooperation the public is willing to give in conducting the activities that are critical to its mission.
Liability to third parties	The impact of an event on the Municipality's liability to third parties.
Environment	The impact of an event on the environment and people who use it.

Public	The impact of an event on the public

Impact criteria that will be used by municipality to rate risks:

Rating	Severity Rating	Continuity of Service Delivery	Safety & Environment	Financial	Achievement of Objectives
5	Critical	Risk event will result in widespread and lengthy disruption in continuity of service delivery to stakeholders of greater than 48hrs	Major environmental damage, Serious injury(permanent disability) or death of a person, Mayor negative media coverage	Significant cost overruns >20% over budget(higher of income or expenditure budget)	Negative outcomes or missed opportunities that are of critical importance to the achievement of objectives
4	Major	Reduction in supply or disruption for a period ranging between 24 - 48hrs over a significant area	Significant injury of a person. Significant environmental damage. Significant negative media coverage.	Significant cost overruns between 10% and 20% over budget(higher of income or expenditure budget)	Negative outcomes or missed opportunities that likely to have a relatively substantial impact to the ability to the achievement of objectives
3	Moderate	Reduction in supply or disruption for a period between 8-23hrs over a regional area	Lower level environmental, safety or health impacts. Limited negative media coverage	Moderate impact on budget (higher of income or expenditure budget)	Negative or missed opportunities that are likely to have a moderate impact on the ability to meet objectives
2	Minor	Brief local inconvenienc e	Little environmental, safety or health	Minor impact on budget (higher of income or	Negative or missed opportunities

		(workaround possibility) Loss of an asset with minor impact on operations	impacts. Limited negative media coverage	expenditure budget)	that are likely to have a minor impact on the ability to meet objectives
1	Insignificant	Insignificant impact on business or core systems	Insignificant environmental, safety or health impacts and or negative media coverage	Insignificant financial loss	Negative or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives

<u>Likelihood criteria</u> that will be used by municipality to rate risks:

Rating	Likelihood	Description
5	Almost certain	The risk is almost certain to occur more than once within the next 12 months. (Probability = 100% p.a.)
4	Likely	The risk is almost certain to occur once within the next 12 months. (Probability = 75 – 100% p.a.)
3	Moderate	The risk could occur at least once in the next 2 – 3 years. (Probability = 50 – 75% p.a.)
2	Unlikely	The risk could occur at least once in the next 3 - 4 years. (Probability = 35 – 50% p.a.)
1	Rare	The risk will probably not occur, i.e. less than once in 5 years. (Probability = 0 – 35% p.a.)

Inherent risk exposure (impact x likelihood) and refer to risk mapping above:

Risk rating	Inherent risk magnitude	Response
15 – 25	High	Unacceptable level of risk – High level of control intervention required to achieve an acceptable level of residual risk
8 – 14	Medium	Unacceptable level of risk, except under unique circumstances or conditions – Moderate level of control intervention required to achieve an acceptable level of residual risk
1 – 7	Low	Mostly acceptable – Low level of control intervention

		required, if any.

Residual risk exposure (impact x likelihood) and refer to risk mapping above:

Risk rating	Residual risk magnitude	Response
15 – 25	High	Unacceptable level of residual risk – Implies that the controls are either fundamentally inadequate (poor design) or ineffective (poor implementation). Controls require substantial redesign, or a greater emphasis on proper implementation.
8 – 14	Medium	Unacceptable level of residual risk – Implies that the controls are either inadequate (poor design) or ineffective (poor implementation). Controls require some redesign, or a more emphasis on proper implementation.
1 – 7	Low	Mostly acceptable level of residual risk – Requires minimal control improvements.

Risk rating:

High	15-25
Medium	8-14
Low	1-7

Risk mapping that municipality will use to plot risks:

LIKEHOOD	Almost Certain	5	10	15	20	25
	Likely	4	8	12	16	20
	Moderate	3	6	9	12	15
	Unlikely	2	4	6	8	10
	Rare	1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Catastrophic
		IMPACT				

The qualitative criteria that will be used by municipality to assess likelihood are:

- Geographical dispersion of operations;
- Complexity of activities – management judgments;
- Pressure to meet objectives;
- Frequency of losses;
- Competency, adequacy and integrity of personnel;
- Degree of computerized systems;
- Vague objectives/mandates;
- Time constraints;
- Potential of conflict of interest; and
- Susceptibility of the asset to misappropriation.

6.3.8 Risk Appetite

MLM may consider risk appetite qualitatively, with such categories as high, moderate or low, or they may take a quantitative approach, reflecting and balancing goals for capital expenditure, budgets and risk. MLM's risk appetite guides resource allocation. Management allocates resources across departments and functional areas within departments with consideration to MLM's risk appetite and individual strategy for ensuring that expenditure remains within the budget of MLM and that the objectives are met. Management considers its risk appetite as it aligns its resources and designs infrastructure necessary to effectively respond to and monitor risks.

Risk appetite:

- Enables an improved consistency of decision making at all levels through improving risk understanding;
- Provides a framework for knowingly taking risk within defined boundaries;
- Improves the ability of the Shared Audit and Performance Committee to challenge recommendations of management by providing a benchmark of what level of risk is defined as acceptable; and
- Derives real value from the assessment of risk over and above compliance purposes.

The risk appetite decided upon should be formally considered as part of the setting of business strategy, with capital expenditure and other strategic decisions reviewed against it as they arise. As risk appetite is unlikely to be reduced to a single measurement, MLM needs to decide on the key measurements of risk that are best aligned to its business objectives and in most cases risk appetite will be defined by a mixture of quantitative and qualitative elements.

The key determinants of risk appetite are as follows:

- Expected performance;
- The resources needed to support risk taking;
- The culture of MLM;
- Management experience along with risk and control management skills; and
- Longer term strategic priorities.

The formulation of the risk appetite is typically closely aligned to the strategic planning process and is also inclusive of budgeting, and as such is something that should be reviewed by management annually.

Defining a risk as acceptable does not imply that the risk is insignificant. The assessment should take into account of the degree of control over each risk, the cost impact, benefits and opportunities presented by the risk and the importance of the policy, project, function or activity.

6.3.9 Risk Tolerance

Risk Tolerance is the amount of uncertainty an organisation is prepared to accept in total; or more narrowly within a certain business unit, a particular risk category or for a specific risk initiative. Expressed in quantitative terms that can be monitored, risk tolerance often is communicated in terms of acceptable or unacceptable outcomes or as limited levels of risk. Risk tolerance statements identify the specific minimum and maximum levels beyond which the organisation is unwilling to loose. The municipality makes reference to Inherent risk exposure table and Residual risk exposure table above applicable to operational and non- strategic risks as its quantitative application of risk tolerance.

The municipality's Risk Tolerance can be defined by reference to the following components:

i) **Acceptable risks:**

a) All personnel should be willing and able to take calculated risks to achieve their own and the municipality's objectives and to benefit the municipality. The associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.

b) *Within the municipality, particular care is needed in taking any action which could:*

- Impact on the reputation of the municipality;
- Impact on performance;
- Undermine the independence and objective review of activities;
- Result in fine by regulatory bodies and
- Result in financial loss

c) Any impact or opportunity which has a sizeable potential impact on any of the above should be examined, its exposures defined and it should be discussed with the appropriate line manager. Where there is significant potential and high likelihood of occurrence it should be referred to the risk committee

ii) **Prohibited Risks**

a) Municipality policies and guidelines and other control procedures are mandatory and must be complied with e.g. MFMA. Full compliance with these standards is required and confirmation of compliance will be sought in the Municipality's annual report. Non-compliance with constitutes an unacceptable risk.

b) The municipality has Zero tolerance for fraud risk.

6.4 STEP – 4: Risk Evaluation

Risk evaluation involves action plans for improving or changing risk mitigation measures to be documented in the risk registers. This includes developing an action plan for each maximum or high level risk, identifying risk treatment options. It is important that a process of tracking progress made with risk interventions 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.

The prioritised risks will inform both the scope of internal audit and the risk management committee. Both these support structures will primarily focus on the risks assessed as high, medium and low successively.

6.5 STEP – 5: Risk Treatment

The Municipality will use the following four strategies or risk response in dealing with risks:

6.5.1 Avoidance

Risk avoidance involves eliminating the risk-producing activity entirely (or never beginning it). Although avoidance is highly effective, it is often impractical or undesirable, either because the Municipality is legally required to engage in the activity or because the activity is so beneficial to the community that it cannot be *discontinued*.

6.5.2 Reduction

Risk reduction strategies reduce the frequency or severity of the losses resulting from a risk, usually by changing operations in order to reduce the likelihood of a loss, reduce the resulting damages, or both. An example of a risk reduction strategy is the preparation, before a loss occurs, of contingency plans to expedite recovery from the loss.

6.5.3 Control

The Municipality will implement corrective action to manage risks identified while still performing the activity from the Municipality, e.g. after a loss has occurred, risk control strategies keep the resulting damages to a minimum.

6.5.4 Transfer

Risk transfer strategies turn over the responsibility of performing a risky activity to another party, such as an independent contractor, and assign responsibility for any losses to that contractor. (When used as a risk financing method, such strategies transfer the liability for losses to another party),

The Municipality or component is responsible for choosing a suitable strategy for dealing with a key risk. The implementation and eventual operation of this strategy is the responsibility of program managers and must be within above risk response strategies.

7. 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 published on website of Matjhabeng Local Municipality.

- Quarterly risk management progress with 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.

8. 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.*

9. 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.

10. REPORTING

10.1 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.

10.2 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

11 ROLE PLAYERS AND RESPONSIBILITIES

11.1 RESPONSIBILITIES OF THE COUNCIL AND NON-EXECUTIVE COUNCILLORS

Council is accountable to the legislature / parliament / in terms of the achievement of the goals and objectives of the department. As risk management is an important tool to support the achievement of this goal, it is important that the Executive Authority should provide leadership to governance and risk management.

High level responsibilities of the Executive Authority in risk management include:

- Providing oversight and direction to the Accounting Officer on risk management related strategy and policies;
- Having knowledge of the extent to which the Accounting Officer and management has established effective risk management in their respective institutions;
- Awareness of and concurring with the department's risk appetite and tolerance levels;
- Reviewing the department's portfolio view of risks and considers it against the institution's risk tolerance;
- Influencing how strategy and objectives are established, departmental activities are structured, and risks are identified, assessed and acted upon;
- Requiring that management should have an established set of values by which every employee should abide by;
- Insist on the achievement of objectives, effective performance management and value for money.

In addition the Municipal Council should consider the following aspects below which if *not considered could affect the institution's risk culture:*

- The design and functioning of control activities, information and communication systems, and monitoring activities;
- The quality and frequency of reporting;
- The way the department is managed including the type of risks accepted;
- The appropriateness of reporting lines.

In addition the Municipal Council should:

- Assign responsibility and authority;
- Insist on accountability.

11.2 RESPONSIBILITIES OF THE EXECUTIVE MAJOR

The executive mayor or committee must provide political guidance over policy, budget and financial affairs of the municipality and ensure that the municipality complies with is obligations under legislation. The following responsibilities performed by the mayor have far reaching implication for integrated risk management:

- Providing political guidance on budget process
- Co-ordinating the budget process with the accounting officer
- Approving SDBIP within 28 days after approval of the budget, and approving the performance agreements of the municipal manager and senior managers
- Monitor the financial performance of the municipality through monthly financial reports submitted by the accounting officer.
- Provide council with quarterly budget reports and taking action where necessary
- Report instances of potential or real non-compliance with the issues that may necessitate provincial interventions.
- Guide the municipality in its dealings with municipal entities.
- Tabling the annual report to council each year.

11.3 RESPONSIBLILITIES OF THE ACCOUNTING OFFICER

The Accounting Officer shall be responsible for the following:

- 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 (ERM),
- Place the key risks at the forefront of the management agenda and devote attention to overseeing their effective management,
- Approves the institution's risk appetite and risk tolerance,

- Hold management accountable for designing, implementing, monitoring and *integrating risk management principles into their day-to-day activities,*

- Leverage the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management,

- Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored,

- Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

11.4 RESPONSIBILITIES OF MANAGEMENT

- Integrating risk management into planning, monitoring and reporting processes, and the daily management of programs and activities,

- Creating a culture where risk management is encouraged, practised, rewarded and risk management infrastructure is provided.

- Aligns the functional and institutional risk management methodologies and processes,

- Acknowledges the "ownership" of risks within their functional areas and all responsibilities associated with managing such risks;

- Assigning a manager to every key risk for appropriate mitigating action and to determine an action date;

- Cascades risk management into their functional responsibilities;

- Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;

Holds officials accountable for their specific risk management responsibilities;

- Maintains the functional risk profile within the institution's risk tolerance and appetite;

- Provides reports on the functional risk management consistent with the institution's reporting protocols (including appearing before committees);

- Aligns the functional and institutional risk management methodologies and processes;

- Implements the directives of the Accounting Authority / Officer concerning risk management;

- Maintains a harmonious working relationship with the CRO and supports the CRO in *matters concerning the functions risk management;*

- Maintains a harmonious working relationship with the Risk Champion and supports the Risk Champion in matters concerning the functions risk management;

Keeps key functional risks at the forefront of the management agenda and devote personal attention in overseeing the management of these risks.

Providing risk registers and risk management reports to the CRO pertaining to risk and controls;

11.5 RESPONSIBILITIES OF INTERNAL AUDIT

The role of internal audit is, but not limited, to provide assurance of the Municipality on the risk management process.

These include:

- Provides assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems around risk management,

- Provides assurance over the Municipality's risk identification and assessment processes,

- Utilises the results of the risk assessment to develop long term and current year internal audit plans,

- Provides independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the institution.

11.6 RESPONSIBILITIES OF AUDIT COMMITTEE

Audit committee is a sub-committee of the Municipal Council.

- The role of the Audit Committee in risk management is to access and review the outcome of the risk management process.

- The ultimate objective of this review is to ensure that risk management processes are working effectively and that key risks are being managed to an acceptable level.

- The assurance will come from the Audit Committee's review of internal audit reports and external audit reviews.

11.7 RESPONSIBILITIES OF THE CHIEF RISK OFFICER

- Develop risk management implementation plan of the municipality,

- *Works 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 Accounting Officer,

- Communicates the risk management policy, strategy and implementation plan to all stakeholders in the institution,
- Continuously driving the risk management process towards best practice,

- Develop a common risk assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Accounting Officer.
- Coordinating risk assessments within the municipality as outlined in the policy.

- 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.

- Assisting management in developing and implementing risk responses for each identified material risk.

- Participate in the development of the combined assurance plan for the institution, together with internal audit and management.

- Ensuring effective information systems exist to facilitate overall risk management improvement within the institution.

- Collates and consolidates the results of the various assessments within the institution.

- Analyse the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends.

- Compile the necessary reports to the Risk Management Committee.

- Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans occupational health, safety and environmental policies and practices and disaster management plans.

- Report administratively to Accounting Officer and functionally to Risk Management Committee.

11.8 ROLE OF THE STRATEGIC PLANNING DIRECTORATE MANAGER

- Within the context of the Risk Management Strategies of the office, Strategic Planning Component Manager will be responsible for:

- Familiarity with the overall enterprise risk management vision, risk management *strategy, fraud risk management policy and risk management policy.*
- Acting within the tolerance levels set by the component.
- Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility.
- Participation in risk identification and risk assessment strategic risks.
- Implementation of risk responses to address the identified risks.
- Reporting any risks to chief risk officer on a periodic and timely basis, and taking action to take advantage of, reduce, mitigate and adjusting plans as appropriate.
- Incorporating risk managing into project management planning process.

11.9 ROLES OF ALL OFFICIALS

Each official will be responsible for:

- Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy;
- Acting in terms of the spirit and letter of the above.
- Acting within the risk appetite and tolerance levels set by the business unit;
- Adhering to the code of conduct for the institution;
- Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility;
- Providing information and cooperation with other role players;
- Participation in risk identification and risk assessment within their business unit;
- Implementation of risk responses to address the identified risks.

11.10 ROLE OF RESPONSIBILITY MANAGERS OR RISK OWNERS

Risks should be identified at a level where a specific impact can be identified and a specific action or actions to address the risk can be identified. All risks, once identified, should be assigned to an owner who has responsibility for ensuring that the risk is managed and monitored over time. A risk owner, in line with their accountability for managing the risk, should have sufficient authority to ensure that the risk is effectively managed. The risk owner need not be the person who actually takes the action to address the risk. Risk owners should however ensure that the risk is escalated where necessary to the appropriate level *of management*.

It is the responsibility of the Risk Owner to:

- Ensure that divisions are effectively implementing the Risk Management Strategy,
- Identify and report fraudulent activities within their Unit,
- Conduct preliminary inquiry on any alleged incident that is on conflict with the Code of Conduct for the Public Service and draft a report for the investigators,
- Provide support on investigations by facilitating the obtaining of information in any form [electronic, documentary, etc] by investigators, in line with the applicable regulations,
- Be a point of entry for investigators and risk management officials within their respective units.

11.11 ROLE OF RISK CHAMPIONS

- The risk champions are appointed to fulfil the following responsibilities
- To Ensure that divisions are effectively implementing the Risk Management Strategy,
- Identify and report fraudulent activities within their Unit,
- Conduct preliminary inquiry on any alleged incident that is on conflict with the Code of Conduct for the Public Service and draft a report for the investigators,
- Provide support on investigations by facilitating the obtaining of information in any form [electronic, documentary, etc] by investigators, in line with the applicable regulations,
- Be a point of entry for investigators and risk management officials within their respective units.

12 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.

13 POLICY ADMINISTRATION

13.1 The effectiveness of the policy will be reviewed annually.

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

14 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.

15 ADOPTION OF THE POLICY

Adopted by:

Municipal Manager (Adv Mothusi Lepheana) — 04/2/2016 Date

Executive Mayor (Cllr Sebenzile Ngangelizwe) — 05/02/2016 Date