

RISK MANAGEMENT POLICY



GREATER LETABA MUNICIPALITY

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- a) Municipal Finance Management Act (Act 56 of 2003) (MFMMA)
- b) Public Sector Risk Management Framework
- c) The King V Report on Corporate Governance

4. LEGISLATIVE AND REGULATORY MANDATES

- h) **Risk Management Process**- Involves the identification, assessment, and prioritization of the risks and the application of resources to minimize, monitor and control the probability and/or impact of the negative occurrence.
- g) **Risk Management**- Is the process of analyzing and assessing exposure to risk and determining how best to manage exposure to limit or even eliminate the risks.
- f) **Risk Evaluation**- The process used to determine risk management priorities by comparing the level of risk against the likelihood and consequences.
- e) **Risk Assessments**- "Risk assessment it's a process for identifying and analyzing risks to achieving the entity's objectives, forming a basis for determining how risks shall be managed.
- d) **Risk analysis**-A systemic use of available information to determine how often specified events may occur and the magnitude of their consequences.
- c) **Risk appetite** - Is the maximum amount of risk that the institution is able to accept in line with government priorities, its strategic goals, without exposing it to the point where its survival is under threat and faces financial constraints.
- b) **Risk register**- A database of the risks that the municipality is exposed to.
- a) **Risk** - means the likelihood of a threat materializing by exploitation of an event or incident to create vulnerability (the effect of uncertainty on objectives)

3. DEFINITIONS

The policy is applicable to all municipal activities, employees, service providers and volunteers

2. SCOPE

- a. Appropriate systems are in place to identify material risks facing the municipality;
- b. The potential financial impact of identified risks is ascertained;
- c. Appropriate controls and strategies are adopted to manage exposure to those risks;
- d. Appropriate responsibilities are delegated to control identified risks effectively;
- e. Any material emerging risk are disclosed

The purpose of this policy is to ensure that:

1. PURPOSE

- d) ISO 31000
- e) COSO Framework
- f) POPI Act

5. RISK MANAGEMENT OBJECTIVES

1. The objectives of this Risk Management policy is to assist management to make informed decisions which will:
 - a. Improve the municipality's performance on decision making and planning;
 - b. Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the municipality
 - c. Provide a sound basis for integrated risk management and internal control as components of good corporate governance.
 - d. To develop appropriate loss control techniques to control the frequency and severity of those losses that are unavoidable

2. The improvements and benefits of effective Risk Management should:

- a. Increase the likelihood of achieving the municipality's strategic objectives
- b. Prioritizing the allocation of resources;
- c. Providing an early warning of potential risks; and
- d. Providing officials with the skills to manage the risks;

6. RISK MANAGEMENT AND INTERNAL CONTROLS

- a) The municipality shall ensure that the risk management framework is responsive to changes in or expansion of municipal activities, and developments in the operating environment
- b) The framework shall support the ability of municipality to anticipate and react quickly to new or emerging risks
- c) When developing strategies or responses to mitigate risks, consideration shall be given to the impact of the chosen mitigation strategy on other risks, directly or indirectly. These shall be explicitly considered and accounted for, to avoid giving rise to new unattended risks

7. RISK CULTURE OR CONTROL ENVIRONMENT

- a) The council and management shall ensure that risk management activity is not carried out in isolation but is well-integrated throughout the municipality
- b) The municipality shall promote the awareness and understanding of risks

Rating	Assessment	Definition
1	Insignificant	Negative outcomes or missed opportunities that are likely to have a negligible impact on the ability to meet objectives.

risk occurs.

Impact is the extent of damage or loss that the municipality may incur in the event that the following rating tables are used to assess the potential impact of risks Impact

- analyses offer structured approaches to risk recognition (SWOT) and political, Economic, social technological legal environmental (PESTLE) (SWOT and PESTLE analyses - strengths weaknesses opportunities threats
- e) SWOT and PESTLE analyses to identify critical components that are key to success
 - d) Flowcharts and dependency - Analysis of processes and operations within the analysis organisation to identify critical components that are key to success
 - c) Inspections and audits - Physical inspections of premises and activities and audits of compliance with established systems and procedures
 - b) Workshops and brainstorming- Collection and sharing of ideas and discussion of the events that could impact the objectives, stakeholder expectations or key dependencies
 - a) Questionnaires and checklists - Use of structured questionnaires and checklists to collect information to assist with the recognition of the significant risks
- Risk assessment techniques to be utilised in identifying risks:

9. RISK ASSESSMENT METHODOLOGY

- municipality in executing its business strategy
- e) The risk appetite shall address the major types of risk that the municipality needs to manage and the tolerance levels around specific risks that are acceptable to the municipality to manage and monitor risk exposures.
 - d) The risk appetite shall be consistent with the skills and resources available within the municipality for that particular risk or risk event.
 - c) Risk appetite shall be determined and quantified using data that has been produced overtime for that particular risk or risk event.
 - b) The municipality shall have low risk appetite for all forms of loss resulting from negligence and wasteful or fruitless expenditure
 - a) The risk appetite shall be clearly stated and articulated so that it informs management decisions.

8. RISK APPETITE.

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%

Perceived control effectiveness and risk exposure at residual level

Rating	Assessment	Definition
1	Rare	The risk is conceivable but is only likely to occur in extreme circumstances
2	Unlikely	The risk occurs infrequently and is unlikely to occur within the next 3 years
3	Moderate	There is an above average chance that the risk will occur at least once in the next 3 years
4	Likely	The risk could easily occur, and is likely to occur at least once within the next 12 months
5	Common	The risk is already occurring, or is likely to occur more than once within the next 12 months

Likelihood answers the question – what are the chances of the risk occurring?

Likelihood

Rating	Assessment	Definition
2	Minor	Negative outcomes or missed opportunities that are likely to have a relatively low impact on the ability to meet objectives.
3	Moderate	Negative outcomes or missed opportunities that are likely to have a relatively moderate impact on the ability to meet objectives.
4	Major	Negative outcomes or missed opportunities that are likely to have a relatively substantial impact on the ability to meet objectives.
5	Critical	Negative outcomes or missed opportunities that are of critical importance to the achievement of the objectives.

Risk rating	Residual magnitude	Response
8 - 14	Medium	Unacceptable level of residual risk - implies that controls are either inadequate (poor design) ineffective (poor implementation). Controls require some redesign, or a more emphasis proper implementation.

Residual risk exposure (inherent risk x control effectiveness)

The following is an example of a rating table that can be utilised to categorise the various levels of residual risk. Institutions are encouraged to customise the rating table to their specific requirements.

Risk rating	Inherent risk magnitude	Response
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.

Inherent risk exposure (impact x likelihood)

The rating table will be utilised to categorise the various levels of inherent risk.

a) The council shall ensure that strategic objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities.

11.1 Council

Roles and responsibilities

Staff and Contractors	Comply with risk management policies and procedures
Managers	Ensure staff in their business units comply with the risk management policy and foster a culture where risks can be identified and escalated
Risk Manager	Continuously improving risk management policy, strategy and supporting framework
Accounting Officer	Drives culture of risk management
Audit and Risk Committee	Oversees regular review of risk management activities
Council	Provides policy, oversight and review of risk management

11. RISK ARCHITECTURE
 Risk governance focuses on applying the principles of sound corporate governance to the assessment and management of risks to ensure that risk taking activities are aligned with an municipal capacity to absorb losses and its long-term viability.

Types of responses

Strategy	Description
Accept the risk	Taking a chance that the risk may or may not occur/happen
Avoid the risk	Changing your plans in order to prevent the risk from arising
Mitigate the risk	Reducing/lessening the impact/seriousness of the risk and probability
Transfer the risk	Transferring the risk to a capable party that can manage the outcome

a) Management shall select appropriate actions to align risks with municipal risk tolerance and risk appetite
 b) The risk responses chosen shall be realistic, taking into account the costs of responding as well as the impact on risk

10. RISK RESPONSE

- a) Reviewing the management of key risks
- b) Evaluating the reporting of key risks
- c) Evaluating and giving assurance on risk management processes
- d) Giving assurance that risks are correctly evaluated

11.4 Internal Audit

- a) Financial reporting risks
- b) Compliance risks
- c) Fraud risks as it relates to financial reporting
- d) IT risks as it relates to financial reporting

shall oversee:

The committee shall ensure that the municipality has an effective risk framework, policy and a plan for risk management in order to assist in achieving its strategic goals and that the disclosure and reporting of risk is complete, timely and relevant. The committee is an integral component of the risk management governance process, and specifically the committee

11.3 Audit Committee

- a) Management is responsible for ensuring that the day-to-day management of the municipal activities are consistent with the risk strategy, including the risk appetite, and policies approved by the council
- b) When new business strategies or activities are being pursued, management shall ensure that all key risks associated with the activities have been identified and assessed to determine whether these risks are within the municipal risk appetite.

11.2 Management

- b) The council shall approve the overall risk strategy, including the risk appetite and oversee its implementation.
- c) The council shall take appropriate steps to ensure that strategic and operational decisions are aligned with the risk appetite set by the council.
- d) Review management's implementation of risk strategy and obtaining assurance that organizational units are operating within the parameters of the institution's appetite for specific types of risk.

a) Council and senior management shall be provided with timely, complete, reliable and accurate risk information to enable them to make informed decision

12. Risk Reporting

- Chairperson-Independent person
- Accounting Officer
- All Directors
- Chief Audit Executive
- ICT Manager
- Risk Management Officer

as follows:

- k) The risk committee shall be chaired by an independent person and constituted Committee's recommendations to address such issues
- l) Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the effectiveness of the risk management activity
- i) Develop goals, objectives and key performance indicators to measure the address the identified weaknesses
- h) Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instated to
- g) Evaluate the effectiveness of the implementation of the fraud prevention policy by the Accounting Officer
- f) Review the fraud prevention policy and make recommendations for consideration institution
- e) Report to the Accounting Officer any material changes to the risk profile of the the institution
- d) Evaluate the effectiveness of mitigating strategies to address the material risks of reasonable assurance of the completeness and accuracy of the risk register
- c) Review the institutions risk identification and assessment methodologies to obtain Accounting Officer
- b) Review the risk appetite and tolerance levels and make recommendations to the implementation plan, and submit recommendation to the Accounting officer
- a) Review the risk management policy, enterprise risk register, top ten strategic risks, risk management strategy as well as the annual risk management

11.5 Risk Management Committee

M/W

This policy shall be reviewed annually.

13. Conclusion

- b) Risk committee shall establish the frequency, content and form of risk reports to be submitted to the Accounting Officer to ensure the risk reports facilitate understanding and the determination of appropriate risk responses.
- c) Information provided to Council shall present an accurate, complete and reliable view of material risks in a way that supports informed decisions.