GREATER LETABA MUNICIPALITY

RISK MANAGEMENT POLICY

1. DEFINITION OF TERMS

a) Risk

The chance that something will happen that will have an impact upon objective. It is measured in terms of consequences and likelihood

b) Risk register

A list of risks, capturing risk details, mitigation strategies, further actions and ownership

c) Risk Acceptance

An informed decision to accept the consequences and the likelihood of a particular risk

d) Risk analysis

A systemic use of available information to determine how often specified events may occur and the magnitude of their consequences

e) Risk Assessment

The overall process of risk analysis and risk evaluation

f) Risk Control

That part of risk management that involves the implementation of policies, standards, procedures and physical changes to eliminate or minimize adverse risks.

g) Risk Evaluation

The process used to determine risk management priorities by comparing the level of risk against

h) Risk Identification

The process of determining what can happen, why and how

i) Risk Management

The culture, process, and structure that are directed towards the effective management of potential opportunities and adverse effects

j) Risk Management Process

The systematic application of management policies, procedures, practices to the tasks of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risk

k) Risk Treatment

Selection and implementation of appropriate options for dealing with risk

2. SUMMARY

The purpose of the policy is to ensure that all risks within Greater Letaba Municipality are properly identified, evaluated, managed and reported. Risks will be escalated to management to enable both operational and strategic reviews.

An effective risk management process will help the municipality to achieve its strategic objectives. Non-achievement of key objectives could have significant impact upon:

a) Services delivery

b) Reputation and

c) Operational effectiveness and efficiency

It will also ensure that internal controls are adhered to, improved and implemented by all officials and management of the municipality. This policy should be read with the risk management strategy, anti-fraud and corruption policy and strategy.

3. LEGISLATIVE MANDATES

Section 62(1)(c)(i) and 95(C)(1)of the Municipal Finance Management Act (Act 56 of 2003) (MFMA)

"Require that the accounting officer must ensure that their municipalities and municipal entities have and maintain effective, efficient and transparent system of risk management".

Section 27.2.1 of the Treasury Regulations

The accounting authority must ensure that a risk assessment is conducted regularly so as to identify emerging risks of the municipality. The risk management strategy, which must include a fraud prevention plan, must be used to direct internal audit effort and priority and to determine the skills required of managers and staff to improve controls and to manage these risks. The risk management strategy must be clearly communicated to all officials to ensure that it is incorporated into the language and culture of the municipality.

The King III Report on corporate governance also reflects on risk management as an integral part of strategic and operational activities. Good corporate governance requires that risks to an organization should be properly identified, evaluated and managed. Systems and processes should

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be in place for designing, implementing and monitoring the process of risk management and integrating it to the day to day activities of an organization

4. SCOPE

The risk management policy will cover all types of risk across Greater Letaba Municipality, ensuring that all significant risks are escalated for consideration by the management.

5. OBJECTIVE

The municipal objectives in relation to management of risk are to:

  a) Improve awareness and understanding of risk and the need for effective risk management

  b) Integrate and embed risk management into the organization's culture

  c) Manage risk in accordance with best practices and

  d) Anticipate and respond to changing social, environmental and legislative requirements

6. POLICY STATEMENT

This policy aims to pursue a structured approach to the effective management of risk in pursuit of business objectives. The realization of our strategic plan depends on all Greater Letaba Municipality employees being able to take calculated risks in a way that does not jeopardize the interest of our stakeholders.

Sound management of risk will enable the municipality to anticipate and respond to changes in our environment, as well as taking informed decisions under conditions of uncertainties. In this, the process of risk management aims to ensure that:

  a) Financial, operation and management systems directly support the management of risks that threaten the achievement of the municipal objectives.

  b) Management and council have an active, structured and commonly shared knowledge of the whole range and the relative priority of risks that they have to manage.

  c) Managers at every level share the understanding of risks and priorities.

  d) Responsibility for the management of risks is assigned to staff that have the authority to ensure that they are managed

  e) Resources are assigned to the management of risks in such a way to optimize value for money.

f) Management and council priorities in respect of risk are fully communicated down the organization.

g) Management and council's view is informed by upward reporting of risks through the organization.

h) Systems of control support the preparation of the statement on internal control.

i) The risk management system is functioning efficiently and effectively integrates with the corporate and business planning processes.

7. RISK MANAGEMENT APPLICATION

The risk management process will apply to the following areas:

a) Strategic , operational and business planning processes, including policy development and project management;

b) Assets management and resource planning;

c) Management of ethics, fraud, security and probity issues;

d) Business interruption and continuity management;

e) Organizational and technological changes;

f) Public risk and general liability risks;

g) Occupational health and safety risks;

h) Environmental management;

i) Purchasing and contract management;

j) Financial management;

8. RISK MANAGEMENT PROCESS

8.1 Objective setting

Objectives must exist before management can begin to identify events potentially affecting its achievements. During the strategic planning the municipality shall set its objectives under the following four category context, which are:

a) **Strategic –** this objectives are at a higher level goals, aligned and supporting the municipal mission/vision/organizational values

b) **Operations** – the objectives relates to the effectiveness and efficiency of the municipal operation, including performance and service delivery goals through the sectional work-plans cascaded from the strategic plan.

c) Reporting – relating to effectiveness of the municipal reporting which includes internal and external reporting on financial and non-financial information.

d) Compliance -relating to the municipal compliance with all applicable laws and regulations

These objectives must be consistent with the institution's risk appetite and tolerance levels.

8.2 RISK IDENTIFICATION

The purpose of risk identification exercise is to identify, discuss and document the risks facing the institution. Risk identification shall be a responsibility of all municipal officials. Risk identification shall cover both internal and external risks as well as financial and non-financial risks that affect the municipality to achieve its intended objectives.

Risk officials shall utilize different methods to facilitate identification of risks. And the following methods are some of the techniques that can be employed to identify risk in the municipality

a) Using progress reports

b) Nominal group technique

c) Brainstorming

d) Technique

e) Surveys

f) SWOT analysis

g) Flow charts

h) Audit reports

i) Market research/ related published article

j) Experience of similar

k) Using statistics of nature of enquiries by clients

l) Using whistle blowing report

The main output of a risk identification exercise is a risk register. The risks identified will be recorded in the risk register; the register serves three main purposes:

a) It is a source of information to report the key risks throughout the institution, as well as key stakeholders

b) Management uses the register to focus their attention on the most important issues(it helps management to priorities)

c) To help auditors to focus on their plans on the institution's top risks, the risk register will be updated with all emerging risks.

8.3 RISK ASSESSMENT

Risk assessment measures the likelihood and the impact in which the potential risk has on the organization. Risk assessment shall be conducted by means of the following steps:

a) Utilize the parameter of likelihood and impact inherently and residually as per the risk management framework.

b) Apply the parameters to the risk matrix to indicate what area of risk matrix would be regarded as high, medium or low risk.

c) Determine the risk acceptance criteria by identifying which risk will not be tolerated.

d) Determine risk acceptability and what action will be proposed to reduce risk

e) The risk assessment results will be updated.

Municipal risk appetite/materiality framework

The concept of risk appetite is the key to achieving effective risk management; it looks at the level of exposure which is considered tolerable. However it should be noted that some risks are unavoidable and it is not within municipal ability to completely manage it to a tolerable level.

Identifying the municipal risk appetite is a dynamic activity and risk management unit should periodically revisit the process to ensure that the stated appetite truly reflects the municipal current position. The concept of risk appetite can be further broken down to corporate, delegated and project's risk appetite and this would facilitate a risk escalation process setting trigger points where risk issues can be escalated to the next level of management as they exceed their agreed appetite.

The risk appetite framework of the municipal shall be developed and continuously reviewed as and when the business environment changes. The tolerance levels shall be taken into consideration when conducting risk assessments.

The following rating tables are used to assess the potential impact of risks Impact

Impact is the extent of damage or loss that the municipality may incur in the event that the risk occurs.

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

		objectives.
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.

Likelihood

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

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

Perceived control effectiveness and risk exposure at residual level

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%

Inherent risk exposure (impact x likelihood)

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

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 (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	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.

9. **ROLES AND RESPONSIBILITIES OF ALL OFFICIALS AND STRUCTURES OF THE GREATER LETABA MUNICIPALITY REGARDING MANAGEMENT OF RISKS**

9.1 Implementers

a) Accounting Authority / Officer

The Accounting Authority / Officer is ultimately responsible for risk management within the institution. The Accounting Authority / Officer approve the risk management policy and strategy for the institution and provide leadership and guidance for their implementation. The Accounting Authority / Officer is accountable to the Executive Authority regarding the effectiveness of the risk management process

b) Management

Management owns the risks, thus taking ownership for management of institutional risks.

Management is accountable to the Accounting Authority / Officer to integrate the principles of risk management into their daily routines to enhance the achievement of their service delivery objectives

c) Other personnel

Other Personnel are accountable to line management to integrate the principles of risk management into their daily routines to enhance the achievement of their functional objectives

9.2 Support.

a) Chief Risk Officer (CRO)

The CRO provides specialist expertise in providing a comprehensive support service to ensure systematic, uniform and effective enterprise risk management. The CRO plays a vital communication link between operational level management, senior management, risk management committee and other relevant committees. The CRO is thus the custodian of the ERM framework, the coordinator of the risk management throughout the institution and the institutional advisor on all risk management matters.

b) Risk Champions

A risk champion is usually an existing member of the senior management within the institution. risk champions support the risk management process in specific allocated areas or functions.

A Risk Champion has sufficient authority to drive ERM as required by the institutions risk management policy and strategy. A key part of the risk champions responsibility involves escalating instances where the risk management efforts are stifled, such as when individuals try to block ERM initiatives.

The Risk Champion also adds value to the risk management process by providing guidance and support to manage problematic risks and risks of a transversal nature.

9.3 Oversight

a) Internal Auditors

Internal Auditors are responsible for providing independent assurance on the effectiveness of risk management in the institution. This involves providing assurance that all material risks have been identified and assessed and that control systems implemented to treat such risks are both adequate and effective. Ensure the presence of risk management strategies and monitor effective implementation

b) Risk Management Committee

The risk management committee is responsible for oversight of the quality, integrity and reliability of the institutions risk management processes and risk responses. An important part of the committees mandate is to provide recommendations to the Accounting Authority / Officer to continuously improve the management of specific risks as well as the overall process of risk management.

c) Audit Committee

The Audit Committee is responsible for assisting the Accounting Authority / Officer in addressing its oversight requirements of risk management and evaluating and monitoring the institution's performance with regards to risk

10. Risk Management Strategy/Response

For effectiveness of risk management, the municipal should develop the risk appetite framework. The following approaches or risk management strategies apply in the municipality. The following approaches or techniques will be used by the municipality to minimize and deal with identified risks.

a) Risk Avoidance

In many situations, a lower risk choice is available from a range of risk alternatives. Selecting a lower risk option represents a risk avoidance decision (1 accept this other option because of

less potentially favorable results). Certainly not all should be avoided as low risks can become higher in the long run if there is no proper monitoring. On occasion, a higher risk can be deemed more appropriate because of design flexibility, enhanced performance, or the capacity for expiation.

b) Risk reduction

Risk control is the most common strategies utilized to address risks. It is process of taking specific actions to reduce the probability of risks from occurring and reduce the impact. This often involves using review risk reduction milestones, development of management actions. The manager must develop risk reduction plans and then track activities based on those plans.

c) Risk Transfer

Another way to control risk is to deflect it. Through deflection, managers may reduce risk exposure by sharing risk with service providers and clients. Risk deflection often benefits both the project and the client. The type of contract, performance incentives and warranties may be structured to share risk occurs. Depending on the specific risk, either approach may be effective.

d) Risk Acceptance

Risk retention is a decision to accept the consequences if the event occurs. Projects interestedly involve retention of some risk. The manager must determine what level of risk can be safely assumed in each situation as it evolves.

11. Information and Communication

The municipality is committed to producing and implementing a risk management strategy, which is integral to its management principle in achieving its corporate objectives and framework for good governance.

a) Raising awareness through workshops, training and communication

Risk management shall arrange and organize workshops and or briefing sessions to all staff and stakeholders to raise awareness and information relating to good governance and risk management. This process will ensure same level of understanding and encourage commitment among all staff. Everyone will be informed on what is regarded as risk and proper channels of reporting such risks.

Brochures, pamphlets and poster regarding risk management and others risk information should continuously be distributed to all offices for internal and external clients. Other internal modes of communication like staff communiqué, and intranet will be utilized as another form of awareness campaign.

Information communicated to stakeholders should be conveyed in a simple plain language to ensure understanding and avoid ambiguity.

Risk management shall ensure information regarding risks is shared at all levels on a continuous basis. Communication will aim at raising awareness about the importance and relevance of effective risk management that strives to improve service delivery and sound good governance. The purpose will be to ensure common risk language and advise personnel of their roles and responsibilities in effecting and supporting the process if risk management.

The process of communication shall be in a form of workshops and/or a campaign that shall be held at least twice a year or when needs arises. Risk management will properly plan with the assistance of communication section a workshop or campaign to give feedback of risk assessment or the status of risk at that period and how we are planning to address such risks.

12. Risk Monitoring

Risk management should be regularly monitored a process that assesses both the presence and functioning of its components and the quality of their performance over time. Monitoring can be done in two ways:

a) **Continuous monitoring**

Ongoing monitoring is built into the normal, recurring operating activities of an institution, is performed on a real-time basis and reacts dynamically to changing conditions and is ingrained in the institution. As a result, it is more effective than separate evaluation.

b) **Separate evaluations**

Intermediate monitoring is based on separate evaluations and takes place from time to time, focusing directly on high-risk areas and the effectiveness of control measures. It can be performed by self-assessments or specific questionnaires.

Roles of Risk unit (monitoring)

a) To develop and implement a monitoring tool (risk control matrix)

b) Monthly monitoring on implementation of management actions/control measures

c) To provide detailed report of operational risks to management on risks monitoring.

13. Review

The risk management policy must be reviewed annually