

# GREATER LETABA MUNICIPALITY



## RISK MANAGEMENT POLICY

2017/2018 FINANCIAL YEAR

## TABLE OF CONTENTS

SECTION	DESCRIPTION
1	PURPOSE AND SUMMARY
2	SCOPE
3	DEFINITIONS
4	LEGISLATIVE MANDATE
5	RISK MANAGEMENT OBJECTIVES
6	RISK MANAGEMENT AND INTERNAL CONTROLS
7	RISK CULTURE NA DCONTROL ENVIRONMENT
8	RISK APPETITE
9	RISK MANAGEMENT METHODOLOGY
10	RISK RESPONSE
11	RISK ARTICHETURE
12	RISK PROTOCOLS
13	CONCLUSION

## 1. PURPOSE

- To provide guidance regarding the management of risk
- To support the achievement of corporate objectives
- To protect staff and business assets
- To ensure financial sustainability.

## 2. SCOPE

This policy applies to all municipal activities. It forms part of governance framework and is applicable to all employees, contractors and volunteers.

## 3. DEFINITIONS

- 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)
- b) Risk register-** A database of the risks that an organization is exposed to.
- 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.
- 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 Assessments-** “Risk assessment involves a dynamic and iterative process for identifying and analyzing risks to achieving the entity’s objectives, forming a basis for determining how risks shall be managed.
- f) Risk strategy -**Is the plan to ensure that the institution is operating within its risk appetite.
- g) Risk Evaluation-** The process used to determine risk management priorities by comparing the level of risk against the likelihood and consequences.
- h) 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.
- i) 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.

## 4. LEGISLATIVE MANDATES

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

- d) ISO 31000
- e) COSO Framework
- f) Occupational Health and Safety Act (Act 85 of 1996)

## **5. RISK MANAGEMENT OBJECTIVES**

- a) To minimize harm to the physical, human, fiscal and environmental resources, and minimize the total cost of risk
- b) To minimize harm and the cost of risk
- c) To avoid unnecessary or unreasonable exposures to the extent practicable
- d) To take all reasonable and practical steps to prevent harmful events and losses
- e) To initiate reasonable and appropriate loss control techniques to control the frequency and severity of those losses that are unavoidable

## **6. RISK MANAGEMENT AND INTERNAL CONTROLS**

- a) The municipality shall ensure that its risk management framework is responsive to changes in or expansion of business 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 organization
- b) The municipality shall promote the awareness and understanding of risks throughout the institution.

## **8. RISK APPETITE.**

- a) The risk appetite shall be clearly stated and articulated so that it informs management decisions.
- b) In accordance with MFMA, the municipality shall have low risk appetite for all forms of loss resulting from negligence and wasteful or fruitless expenditure

- c) Risk appetite shall be determined and quantified using data that has been produced overtime for that particular risk or risk event.
- d) The risk appetite shall be consistent with the skills and resources available within the municipality to manage and monitor risk exposures.
- 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 in executing its business strategy

## 9. RISK ASSESSMENT METHODOLOGY

### Risk assessment techniques

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

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

### Inherent risk exposure (impact x likelihood)

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

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 proper implementation.
1 – 7	Low	Mostly acceptable level of residual risk - Requires minimal control improvements.

## 10. RISK RESPONSE

- a) Management shall select appropriate actions to align risks with 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.

### Types of responses

Strategy	Brief 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

## 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 institution's capacity to absorb losses and its long-term viability.

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



## **Roles and responsibilities**

### **Council**

- 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.
- 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.

### **Senior management oversight**

- a) Senior 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, senior 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.

### **Audit Committee**

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 shall oversee:

- 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

### **Internal Audit**

- 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

### **Risk Management Committee**

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

- Risk Management Officer

**12. Risk protocols**

- a) Council and senior management shall be equipped with timely, complete, meaningful and accurate risk information to enable them to make informed
- b) Risk committee shall establish the frequency, content and form of risk reports to be submitted to the board so as to ensure the risk reports facilitate understanding and the determination of appropriate risk responses.
- c) Information provided to the council and senior management shall present an accurate, complete and “unfiltered” (i.e. does not suppress negative information) view of material risks in a way that supports informed decisions.

**13. Conclusion**

This policy shall be reviewed annually by Risk Committee and management and changes approved by the council.