MANTSOPA LOCAL MUNICIPALITY

OFFICE OF THE MUNICIPAL MANAGER: RISK MANAGEMENT UNIT

RISK MANAGEMENT STRATEGY

2014/2015

Table of Contents

1. INTRODUCTION 3
2. THE NEED 3
3. OBJECTIVES 4
4. DEFINITIONS 4
5. RISK MANAGEMENT FRAMEWORK 6
   - 5.1 RISK IDENTIFICATION 7
     - *5.1.1 Inherent risk* 7
     - *5.1.2 Operational risk* 8
     - *5.1.3 The management environment* 8
     - *5.1.4 Control Risk* 8
     - *5.1.5 Detection risk* 9
   - 5.2 RISK CLASSIFICATION 9
   - 5.3 MUNICIPALITY'S RISK APPETITE AND TOLERANCE LEVEL 12
   - 5.4 RISK ANALYSIS/ASSESSMENT 15
   - 5.5 RISK PRIORITISATION 18
   - 5.6 RISK HANDLING / MITIGATION STRATEGY / RISK TREATMENT 19
   - 5.7 RISK MONITORING 19
   - 5.8 RISK REPORTING 20
   - 5.9 FRAUD MANAGEMENT 20
6. ESTABLISHMENT OF RISK MANAGEMENT COMMITTEES 20
7. RESPONSIBILITIES & FUNCTIONS OF THE RISK MANAGEMENT COMMITTEE 20
8. RESPONSIBILITIES OF MEMBER OF EXECUTIVE COMMITEE 20
9. RESPONSIBILITIES OF ACCOUNTING OFFICER 21
10. RESPONSIBILITIES OF MANAGEMENT: 22
11. RESPONSIBILITIES OF INTERNAL AUDIT 22
12. RESPONSIBILITIES OF THE RISK OFFICER 23
13. ROLE OF THE IDP AND PERFORMANCE MANAGER 24
14. ROLE OF ALL OFFICIALS 24
15. ROLE OF RESPONSIBILITY MANAGERS OR RISK OWNERS 25
16. DISCLOSURE 25
17. INTEGRATING RISK MANAGEMENT PLANNING PROCESS 26
18. CONCLUSION 26

1. INTRODUCTION

The adoption of the Municipal Finance Management Act of 2003 and the Treasury Regulations issued in terms of the Act infused the public service with a Municipality culture, which must add to its emphasis on esxternal sanctions and include stronger internal controls with anticipatory management systems to assess the abuse of power, which is the central principle of risk management. This is why risk management is central to managing the Municipality as a whole, and why risk management is integral to planning, organising, directing and coordinating systems aimed at achieving Municipality's goals and objectives.

A major challenge for any Municipality is to develop and implement strategies to deliver on mandates and policies decided on by the Council.

One of the most important mandates is the development and implementation of an integrated risk management strategy whose major objective is to encourage best practice within an evolving government service delivery strategy, while minimising the risks and ensuring that Municipality meets its objectives.

2. THE NEED

The need to manage risk systematically applies to all components and to all functions and activities within Mantsopa Local Municipality.

2.1 An effective risk management strategy helps the Municipality to meet its objectives by ensuring that everyone has a clear understanding of:

2.1.1 The vision, mission and objectives of the Municipality.

2.1.2 Factors that could impact on the Municipality's ability to meet those objectives

2.1.3 The actions necessary to ensure objectives are met.

2.2 An effective Risk Management Strategy can:

2.2.1 Improve accountability by ensuring that risks are explicitly stated and understood by all parties, that the management of risks is monitored and reported on, and that action is taken based on the results.

2.2.2 Focus on planning to deal with factors that may impact on the objectives of the Municipality and provide an early warning signal,

2.2.3 Ensure opportunities are not missed and surprise costs don't arise.

3. OBJECTIVES

The objectives of Risk Management Strategy are as follows:

3.1 To provide and maintain a working environment where everyone is following sound risk management practices and is held accountable for achieving results;

3.2 To provide municipality with the Public Sector Risk Management Framework which the employees will utilise to implement risk management;

3.3 To provide the facilities and create a conducive working environment in ensuring that everyone has the capacity and resources to carry out his or her risk management responsibilities;

3.4 To ensure that risk management activities are fully integrated into the planning, monitoring and reporting processes and into the daily management of program activities.

4. DEFINITIONS

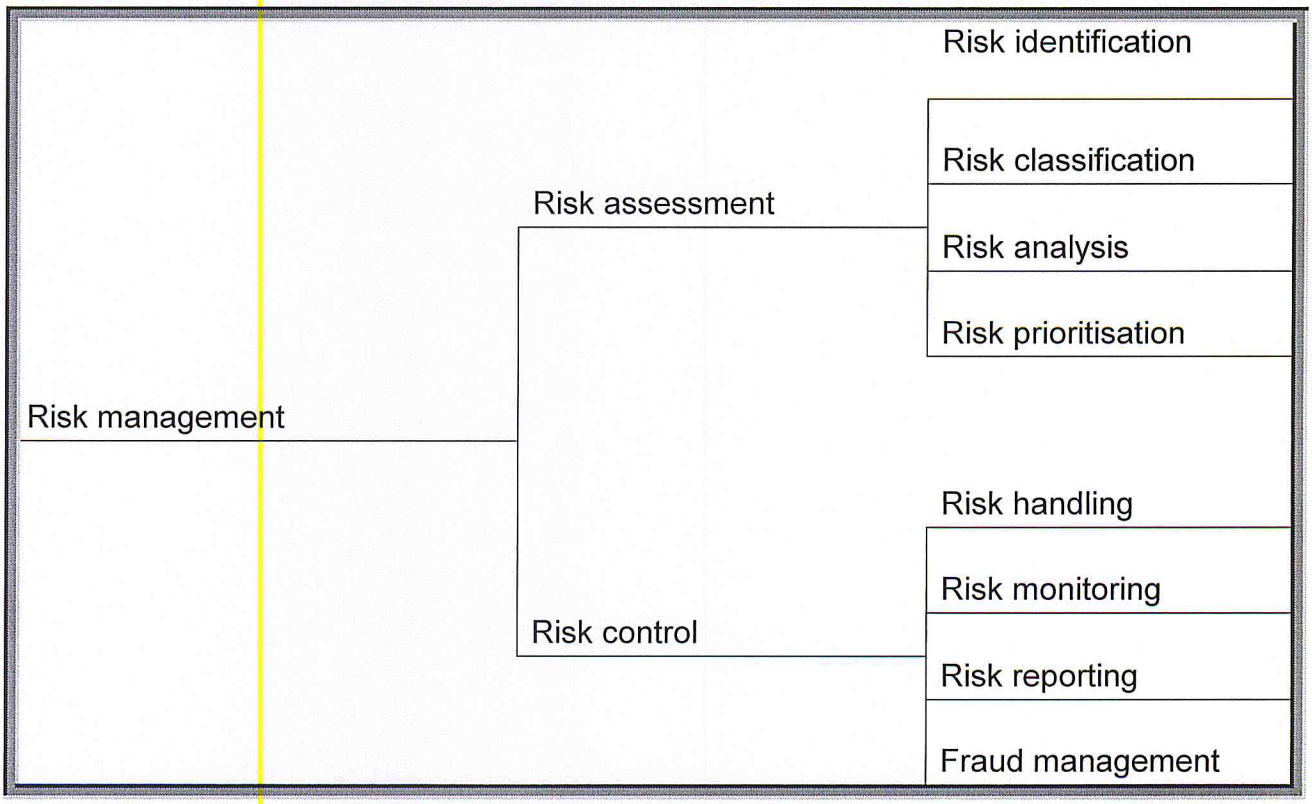
Risks:	Any threat or event that has a reasonable chance of occurrence in the future, which could undermine the institutions pursuit of its goals and objectives. Risk Manifest as negative impacts on goals and objectives or as missed opportunities to enhance institutional performance. Stakeholders expect Municipality to anticipate and manage risks in order to eliminate waste and inefficiency, reduce shocks and crises and to continuously improve capacity for delivering on their institutional mandates.
Risk Management:	Risk management is a continuous, proactive and systematic process, effected by a Municipality's executive authority, accounting officer, management and other personnel, applied in strategic planning and across the Municipality, designed to identify potential events that may affect the Municipality, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of Municipality objectives.

Enterprise Risk Management:	Enterprise risk management (ERM) is the application of risk management throughout the Municipality rather than only in selected business areas or disciplines.
Risk Analysis:	The process that involves identifying the most probable threats to the Municipality and analysing the related vulnerability of the Municipality to the threats. This includes risk assessment, risk characteristics, risk communication, risk management, and policy relating to risk.
Risk Assessment:	The process concerned with determining the magnitude of risk exposure by assessing the likelihood of the risk materialising and the impact that it would have on the achievement of objectives.
Risk Identification:	The process concerned with identifying events that produce risks that threaten the achievement of objectives.
Inherent Risks:	A risk that is intrinsic (a risk which it is impossible to manage) to Municipality activity and arises from exposure and uncertainty from potential events. It is evaluated by considering the degree of probability and potential size of an adverse impact on strategic objectives and other activities.
Residual Risk:	The risk remaining after management took action to reduce the impact and likelihood of an adverse.
Strategic Risks:	Any potential obstacles that may impact on the ability of the Municipality to achieve its strategic objectives.
Risk Response:	The process concerned with determining how the Municipality will mitigate the risks it is confronted with, through consideration of alternatives such as risk avoidance, reduction, risk sharing or acceptance.
Risk Tolerance:	Reflects the acceptable variation in outcomes related to specific performance linked to objectives the municipality seeks to achieve. Closely related to the risk appetite.

Risk Appetite:	The amount of Risk the municipality is prepared to accept.
Risk Acceptance:	An informed decision by the Risk Owner to accept the risk.
Monitor:	The process of monitoring and assessing the presence and functioning of the various components overtime.
Risk Owners:	The Risk Owner is a person who supports the risk management process in a specific allocated component and ensures that the risk is managed and monitored over time.
Executive Authority:	The Member of the Executive Council of a province who is accountable to the provincial legislature for the municipality.

5. RISK MANAGEMENT FRAMEWORK

The risk management framework of the Municipality will be depicted as follows:



5.1 Risk Identification

Using a business process approach, risks are identified in the Municipality. A business process approach involves identifying all the components or processes within a Municipality.
Risks will be identified on component level by having structured interviews and / or workshops with key process staff.

The following definition of a risk will be used by the Municipality:

- ***Any event or action that hinders a process's achievement of its component (explicit and implicit) objectives.***

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)

The three constituent elements of risk are:

- Inherent risk
- Control risk
- Detection risk

Every Municipality is subject to its own inherent and control risks and these risks should be catalogued for use in risk assessment.

The Municipality have its own, unique inherent risks associated with its operations and management style. The risks are countered by installing controls. Since there is no way to reduce risk to zero, there will be some risk even after the best controls are installed (control risk). That degree of risk is control risk. A more detailed discussion of inherent risk, control risk and detection risk follows:

5.1.1 Inherent risk

Inherent risk is defined as the "risk that is intrinsic (a risk which is impossible to manage) to Municipality activity and arises from exposure and uncertainty from potential events. It is evaluated by considering the degree of probability and potential size of an adverse impact on strategic objectives and other activities." With the background of the Municipality's broad outlook on risk, inherent risk also relates to the intrinsic susceptibility of operational and administrative activities to errors and/or fraud that could lead to the loss of Municipality resources or the non-achievement of Municipality objectives.

The importance of inherent risk evaluation is that it is an indicator of potential high-risk areas of the Municipality's operations that would require particular emphasis and it is also an essential part of the combined risk assessment for each process. The identification of all risks pertaining to a process is also the starting point of the risk assessment exercise.

Aspects that bear consideration when assessing the inherent risk are grouped into three categories, namely:

- The operational risk
- The management environment
- The accounting environment

Factors that could influence inherent risk under the three categories are:

- Control risk
- Detection risk

5.1.2 Operational risk

Some programmes / mega processes may have more inherent risk attached to it. Some objectives, outputs and outcomes may have higher priority than others. The objective's outputs and outcomes as well as the programme operations may also be subject to variable factors outside the Municipality's control that may make it more difficult to achieve the programme objectives. These variables outside the Municipality's control increase the overall risk profile of the programme / mega process and therefore also the inherent risk.

5.1.3 The management environment

The integrity of management and staff.

The potential for internal control override and deception is always present. An assessment of management and staff's integrity is difficult. If there were past incidences of fraud or theft within a programme or sub process where personnel were involved and these personnel are still working there the possibility of a lack in integrity would be obvious. A wide range of reasons might tempt management to manipulate accounting records or misstate financial information.

5.1.4 Control Risk

Control risk is defined as "the risk that an error which could occur and which individually or when aggregated with other errors could be material to the achievement of Municipality's objectives will not be prevented or detected on a timely basis by the internal controls." That is, a risk that the Municipality's controls (processes, procedures, etc.) are insufficient to mitigate or detect errors or fraudulent activities.

Control risk arises simply because the accounting system lacks built-in internal controls to prevent inaccurate, incomplete and invalid transaction recording, or due to the intrinsic limitations of internal controls. These limitations are due to factors such as:

- The potential for management to override controls,

- Collusion circumventing the effectiveness of the segregation of duties;
- Human aspects such as misunderstanding of instructions, mistake make in judgment, carelessness, distraction or fatigue.

Control risk also arises when certain risks are simply not mitigated by any control activities.

5.1.5 Detection risk

Detection risk is defined as "the risk that management's procedures will fail to detect error which individually or when aggregated with other errors, could be material to the financial information as a whole." This would also include errors that could be material to the Municipality as a whole.

5.2 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:

Risk type	Risk category	Description
Internal	Human resources	Risks that relate to human resources of a municipality. These risks can have an effect on municipality's human capital with regard to: • Integrity and honesty; • Recruitment; • Skills and competence; • Employee wellness; • Employee relations; • Retention; and • Occupational health and safety.
	Knowledge and Information management	Risks relating to municipality's management of knowledge and information. In identifying the risks consider the following aspects related to knowledge management: • Availability of information; • Stability of the information; • Integrity of information data; • Relevance of the information; • Retention; and • Safeguarding. • Accuracy

	• Access to information
Litigation	Risks that the municipality might suffer losses due to litigation and lawsuits against it. Losses from litigation can possibly emanate from: • Claims by employees, the public, service providers and other third party • Failure by municipality to exercise certain right that are to its advantage
Loss \ theft of assets	Risks that municipality might suffer losses due to either theft or loss of an asset of the municipality.
Material resources (procurement risk)	Risks relating to a municipality's material resources. Possible aspects to consider include: • Availability of material; • Costs and means of acquiring \ procuring resources; and • The wastage of material resources
Service delivery	Every municipality exists to provide value for its stakeholders. The risk will arise if the appropriate quality of service is not delivered to the community of Mantsopa.
Information Technology	The risks relating specifically to the municipality's IT objectives, infrastructure requirement, etc. Possible considerations could include the following when identifying applicable risks: • Security concerns; • Technology availability (uptime); • Applicability of IT infrastructure; • Integration / interface of the systems; • Effectiveness of technology; and • Obsolescence of technology. • Recovery • Backup plans
Third party performance	Risks related to municipality's dependence on the performance of a third party. Risk in this regard could be that there is the likelihood that a service provider might not perform according to the service level agreement entered into with municipality. Non-performance could include: • Outright failure to perform; • Not rendering the required service on time; • Not rendering the correct service; and • Inadequate / poor quality of performance.
Disaster recovery / business continuity	Risks related to municipality's preparedness or absence thereto to disasters that could impact the normal functioning of the municipality e.g. natural disasters, act of terrorism etc. This would lead to the disruption of processes and service delivery and could include the possible disruption of operations at the onset of a crisis to the resumption of critical activities. Factors to consider include:

		• Disaster management procedures; and • Contingency planning.
	Compliance \ Regulatory	Risks related to the compliance requirements that municipality has to meet. Aspects to consider in this regard are: • Failure to monitor or enforce compliance • Monitoring and enforcement mechanisms; • Consequences of non-compliance; and • Fines and penalties paid.
	Fraud and corruption	These risks relate to illegal or improper acts by employees resulting in a loss of the municipality's assets or resources.
	Financial	Risks encompassing the entire scope of general financial management. Potential factors to consider include: • Cash flow adequacy and management thereof; • Financial losses; • Wasteful and fruitless expenditure; • Budget allocations; • Financial statement integrity; • Revenue collection; and • Increasing operational expenditure. • Misappropriation of funds • Payment of third parties within prescribed period
	Cultural	Risks relating to municipality's overall culture and control environment. The various factors related to organisational culture include: • Communication channels and the effectiveness; • Cultural integration; • Entrenchment of ethics and values; • Goal alignment; and • Management style or Governance.
	Reputation	Factors that could result in the tarnishing of municipality's reputation, public perception and image.
External	Risk category	Description
	Economic Environment	Risks related to the municipality's economic environment. Factors to consider include: • Inflation; • Foreign exchange fluctuations; and • Interest rates.
	Political environment	Risks emanating from political factors and decisions that have an impact on the municipality's mandate and operations. Possible factors to consider include: • Political unrest;

		• Local, Provincial and National elections; and • Changes in office bearers.
	Social environment	Risks related to the municipality's social environment. Possible factors to consider include: • Unemployment; and • Migration of workers. • Service delivery protests
	Natural environment	Risks relating to the municipality's natural environment and its impact on normal operations. Consider factors such as: • Depletion of natural resources; • Environmental degradation; • Spillage; and • Pollution.
	Technological Environment	Risks emanating from the effects of advancements and changes in technology.
	Legislative environment	Risks related to the municipality's' legislative environment e.g. changes in legislation, conflicting legislation.

5.3 Municipality Risk Appetite and Tolerance Level

5.3.1 Risk Appetite

Risk appetite is the amount of risk, on a broad level; the municipality is willing to accept in pursuit of value. It reflects the institution's risk management philosophy, and in turn influences the institution's culture and operating style. In practice some institutions consider risk appetite **qualitatively** (it provides focus and focus provides improvement), with such categories as high, medium or low, while others take a **quantitative** (is the key to making better municipality decisions) approach, reflecting and balancing goals for growth, return, and risk.

Improved risk quantification supplements the traditional focus on common ERM benefits such as:

- Improved controls;
- Better communication and;
- Common risk Language.

Risk appetite is directly related to municipality strategy and is considered at strategy setting, where the desired return from strategy should be aligned with the municipality appetite. Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensure that

management has in place a process in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.

The Importance of defining Risk Appetite

- Promotes a shared view amongst Executive, Audit and Risk Management Committee;
- Allows for alignment of risk appetite and strategy which is essential for creating an integrated risk management framework;
- Should improve consistency in decision making;
- Risk management maintains that a defined number of failures can be tolerated if the costs of guarding against them is more expensive than the risks they impose;
- Serves as a key input into strategic planning processes on two levels:
    - Evaluating strategic alternatives;
    - Setting objectives and developing mechanisms to manage the related Risks;
- Assists management to efficiently allocate and manage resources;
- Provides a framework risk-taking boundaries as well as a benchmark for acceptable level of risk.

Management considers its risk appetite as it aligns its municipality, people and processes, and designs infrastructure necessary to effectively respond to and monitor risks.

5.3.2 Risk Tolerance

Risk tolerances are the acceptable levels of variation relative to the achievement of objectives. Risk tolerances can be measured, and often are best measured in the same units as the related objectives. Performance measures are aligned to help ensure that actual results will be within the acceptable risk tolerances.

In setting Risk tolerances, management has considered the relative importance of the related objectives and aligns risk tolerances with risk appetite. Operating within risk tolerances provides management greater assurance that the municipality remains within its risk appetite and in turn, provides a higher degree of comfort that the municipality will achieve its objectives.

Rationale on which the municipality needs to determine the risk tolerance level

Since the Municipality has taken a stance towards implementation of risk management, it is quite imperative that management should have sufficient guidance on the levels of risks that are legitimate for them to take during execution of their duties.

By clearly articulating the risk tolerance level, it will among other things assist the Municipality in:

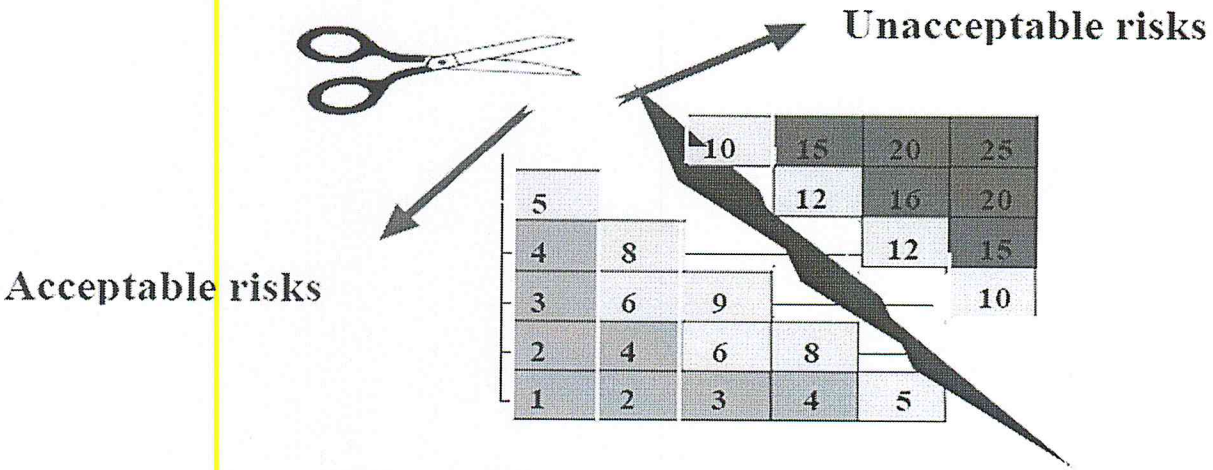
- Showing how different resource allocation strategies can add to or lessen the burden of risk;
- Enhancing decision making processes;
- Improved understanding of risk based audits;

Recommended model for the municipality risk tolerance level

The residual risks (*exposure arising from a specific risk after controls to minimize risk have been considered)* will be used to determine the risk tolerance level. The following risk tolerance level model is recommended with regard to all risks facing the Municipality of Mantsopa:

Risk priority	Risk acceptability	Proposed actions
High risks	Unacceptable	• Drastic action plans needed to reduce the risk • Continuous monitoring • Action plans (avoid/transfer/ Reduce) • Allocate resources • Contingency plans • Remedial actions • MM's attention required
Medium risks	Unacceptable	• Implement further actions to reduce likelihood of risk occurrence • Draw action plans to mitigate risks • Senior Management attention required

		• Monitor at least quarterly
Low risks, except those falling within financial and fraud categories	Acceptable	• No further risk reduction required • Continue control • Monitor at least annually



5.4 Risk analysis/assessment

Risk analysis allows the Municipality to consider how potential risks might affect the achievement of objectives. Management assesses events from two perspectives: likelihood and impact. Likelihood represents the possibility that a given event will occur, while impact represents the effect should it occur.

The following tables reflect the rating criteria that will be used by the Municipality:

Risk rating:

High	
Medium	
Low	

Risk mapping that municipality will use to plot risks:

LIKELIHOOD							
5	Common	5	10	15	20	25
4	Likely	4	8	12	16	20
3	Moderate	3	6	9	12	15

	2	Unlikely	2	4	6	8	10
	1	Rare	1	2	3	4	5
			Insignificant	Minor	Moderate	Major	Critical
			1	2	3	4	5
			IMPACT				

Impact categories:

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 the municipality 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 Municipality	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	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 criteria that will be used by municipality to rate risks:

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

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.

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;
- Vague objectives/mandates;
- Time constraints;
- Potential of conflict of interest; and
- Susceptibility of the asset to misappropriation.

5.5 Risk prioritisation

Within the risk management framework, risk prioritisation provides the link between risk assessment and risk control. Risks assessed as key risks will be introduced and managed within the control major-process.

Depending on the results of the risk analysis performed, risks will be prioritised for the Municipality and per component.

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.

5.6 Risk handling / Mitigation Strategy / Risk Treatment

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

5.6.1 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.

5.6.2 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.

5.6.3 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.

5.6.4 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.

5.7 Risk monitoring

The Risk Management Committee must monitor the handling of key risks by programme managers in line with the charter. Key performance indicators must therefore be developed by the committee to facilitate the monitoring of each key risk.

5.8 Risk reporting

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

5.9 Fraud management

The RO will develop Fraud Prevention Strategy and be reviewed by fraud prevention and risk management committee annually.

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

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

6. ESTABLISHMENT OF RISK MANAGEMENT COMMITTEES

The Municipality must establish a Risk Management Committee and the Committee must be appointed in writing by the Accounting Officer.

7. RESPONSIBILITIES & FUNCTIONS OF THE RISK MANAGEMENTCOMMITTEE

Risk Management Committee Charter serves as a reference for explanation of detailed functions and responsibility of Risk Management Committee.

8. RESPONSIBLITIES OF MEMBER OF EXECUTIVE COMMITTEE

The Executing Authority is accountable to the council in terms of the achievement of the goals and objectives of the municipality. As risk management is an important tool to support the achievement of this goal, it is important that the Executing Authority should provide leadership to governance and risk management.

High level responsibilities of the Executing 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 municipality's risk appetite and tolerance levels;
- Reviewing the municipality's portfolio view of risks and considers it against the institution's risk tolerance;

- Influencing how strategy and objectives are established, municipality 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 Executing Authority 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 municipality is managed including the type of risks accepted;
- The appropriateness of reporting lines.

In addition the Executing Authority should:

- Assign responsibility and authority;
- Insist on accountability.

9. RESPONSIBILITIES OF THE ACCOUNTING OFFICER

The Accounting Officer shall be responsible for the following:

9.1 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 the Municipal Risk Management,

9.2 Place the key risks at the forefront of the management agenda and devote attention to overseeing their effective management,

9.3 Approves the institution's risk appetite and risk tolerance,

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

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

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

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

10. RESPONSIBILITIES OF MANAGEMENT

The Executive Management is responsible for:

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

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

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

10.4 Implements the directives of the Accounting Officer concerning risk management,

10.5 Maintain a harmonious working relationship with the RO and supports the RO in matters concerning the functions of risk management.

11. 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:

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

11.2 Provide assurance over the Municipality's risk identification and assessment processes,

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

11.4 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.

12. RESPONSIBILITIES OF THE RISK OFFICER

12.1 Develop risk management implementation plan of the Municipality,

12.2 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,

12.3 Communicates the risk management policy, strategy and implementation plan to all stakeholders in the institution,

12.4 Continuously driving the risk management process towards best practice,

12.5 Developing 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.

12.6 Coordinating risk assessments within the Municipality/ component / sub-component as outlined in the policy,

12.7 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.

12.8 Assisting management in developing and implementing risk responses for each identified material risk,

12.9 Participating in the development of the combined assurance plan for the institution, together with internal audit and management,

12.10 Ensuring effective information systems exist to facilitate overall risk management improvement within the institution,

12.11 Collates and consolidates the results of the various assessments within the institution,

12.12 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,

12.13 Compiles the necessary reports to the Risk Management Committee,

12.14 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,

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

13. ROLE OF THE IDP & PERFORMANCE MANAGER

The adoption of the MFMA of 2003 and the Treasury Guidelines, issued in terms of the Act pushed the need for intelligent decisions on resource allocation down through the administrative chain to the point at which services are delivered.

This forced managers at every level to focus on the Governments objectives, to manage the risks and become more responsive to the requirements of the recipients of their services.

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

13.1 Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy,

13.2 Acting within the tolerance levels set by the component,

13.3 Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility,

13.4 Participation in risk identification and risk assessment strategic risks,

13.5 Implementation of risk responses to address the identified risks,

13.6 Reporting any risks to Risk Officer on a periodic and timely basis, and taking action to take advantage of, reduce, mitigate and adjusting plans as appropriate.

13.7 Incorporating risk managing into project management planning process.

14. ROLE OF ALL OFFICIALS

Each official will be responsible for:

14.1 Identifying and controlling risks appropriate to his/her position.

14.2 Reporting any risks to his/her immediate supervisor on a timely basis.

14.3 Ensuring that proper and sound system of internal controls is appropriately maintained to ensure that all risks identified are alleviated to tolerable levels through risk mitigation / treatment plan approved by Accounting Officer.

15. 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:

15.1 Ensure that divisions are effectively implementing the Risk Management Strategy,

15.2 Identify and report fraudulent activities within their Unit,

15.3 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,

15.4 Provide support on investigations by facilitating the obtaining of information in any form [electronic, documentary, etc.] by investigators, in line with the applicable regulations,

15.5 Be a point of entry for investigators and risk management officials within their respective units.

16. DISCLOSURE

In order for risk management to work, it must be embedded into everyday activities of the Municipality. It should be integrated into the reporting process. Risk should be part of every decision that is made, every objective that is set and every process that is designed. Risk management will be integrated into the reporting process of managers in strategic planning meetings of the Municipality that are held on a quarterly basis.

16.1 Every Senior Managers shall, on a quarterly basis and during the strategic planning meetings of the Municipality, disclose that:

- he /she is accountable for the process of risk management and the systems of internal control which are regularly reviewed for effectiveness, and in establishing appropriate risk and control policies and communicating this throughout the office.

- There is an on-going process for identifying, evaluating and managing the significant risks faced by the component concerned.

- There is an adequate and effective system of internal control in place to mitigate the significant risks faced by the component concerned to an acceptable level.

- There is a documented and tested process in place which will allow the component to continue its critical business process in the event of disastrous incident impacting on its activities. This is commonly known as business continuity plan and should cater for worst-case scenario.

- That the component complies with the process in place, established to review the system of internal control for effectiveness and efficiency.

16.2 Where the Accounting Officer cannot make any of the disclosures set out above he or she should state this fact and provide a suitable explanation.

17. INTEGRATING RISK MANAGEMENT PLANNING PROCESS

The developed risk management planning process includes a sequence of activities that will occur every year. The risk management planning process is a limited but focused set of strategic objectives that inform the risk management planning process. The planning process links risk management with the day-to-day activities of Units within Municipality.

The planning process is outlined, in detail, in Risk Management Implementation Plan.

18. CONCLUSION

Risk Management is a powerful management tool to deal with uncertainties in the environment, and to establish pre-emptive mechanism to enhance service delivery, while narrowing the scope of corruption, misconduct and unethical professional behaviour.

It is also an effective decision making tool, to assist management to take the correct decisions in an uncertain environment. The development of a culture of risk management and specific response. This will improve the quality of strategic plans, which will assume both predictive and preventative dimensions.

To this end, the Municipality takes full responsibility to ensure that implementation of risk management takes place in all components.

RECOMMENDATION:

..... 16/01/2015

MR. M MPHI
RISK MANAGEMENT COMMITTEE CHAIRPERSON

DATE

THE ACCOUNTING OFFICER HAS REVIEWED AND APPROVED THIS POLICY:

..... 27/01/15

MR. SM SELEPE
MUNICIPAL MANAGER

DATE

COUNCIL'S APPROVAL

..... 27/01/15

Cllr. NTSEPE
MAYOR

DATE