



KWADUKUZA LOCAL MUNICIPALITY

RISK MANAGEMENT POLICY

FINANCIAL YEAR: 2020/2021

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1. POLICY STATEMENT

Risk Management forms a critical part of any institution's strategic management. It is the process whereby an institution both methodically and systematically addresses the risk attached to their activities with the goal of achieving strategic objectives within each activity and across the portfolio of activities. Risk Management is therefore recognized as an integral part of sound organizational management.

An entity-wide approach to risk management will be adopted by the Kwadukuza Local Municipality, which means that every key risk in each part of the Municipality will be included in a structured and systematic process of risk management. It is expected that the risk management processes will become embedded into the Municipality's systems and processes thus ensuring that our responses to risk remain current and dynamic.

All risk management efforts will be focused on supporting the Municipality's objectives. Equally, they must ensure compliance with relevant legislation and fulfil the expectations of employees, communities and other stakeholders in terms of good corporate governance.

The effectiveness of our efforts to entrench a culture of risk management entity-wide rests entirely on the commitment of all political office bearers, municipal officials and agents acting on behalf of *Council*. Commitment to risk management is a sure expression of commitment to Batho Pele principles.

2. LEGAL MANDATE

Section 62(1)(c)(i) of the **Municipal Finance Management Act, 2003** requires that:

- The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure –
 - (c) that the municipality has and maintains effective, efficient and transparent systems –
 - (i) of financial and risk management and internal control.

Section 95l(c)(i) of the **Municipal Finance Management Act, 2003**, requires that:

- “The accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure –
 - (c) that the entity has and maintains effective, efficient and transparent systems –
 - (i) of financial and risk management and internal control”

Section 3.2.1 of the **Treasury Regulations** states the following:

“The accounting officer must ensure that a risk assessment is conducted regularly so as to identify emerging risks of the institution. A 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”

3 KEY DEFINITIONS

Risk

The Institute of Risk Management defines **risk** as “...***the uncertainty of an event occurring that could have an impact on the achievement of objectives.*** Risk not only manifests as negative impacts on the achievement of goals and objectives, but also as a missed opportunity to enhance organisational performance. Risk is measured in terms of consequences or impact and likelihood.”

Enterprise Risk Management

“A continuous, proactive and systematic process, affected by the Municipality and its entities, applied in strategic planning and across the enterprise, designed to identify potential events that may affect the Municipality and its entities, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of institution objectives.”

4. PURPOSE/OBJECTIVE

The Risk Management Policy provides a framework within which management can operate to enforce the pro-active Risk Management process and to instil the risk management culture throughout KwaDukuza Local Municipality and to further ensure that the risk management efforts of the organisation and its institutions are optimised. It describes organisation and its institutions' Risk Management processes and sets out the requirements for management in generating risk management action, together with furthering risk management assurance.

5. BENEFITS OF ENTERPRISE RISK MANAGEMENT

The policy will enable KwaDukuza Local Municipality to effectively deal with uncertainty and associated risk and opportunity to enhance the capacity to build value. Enterprise risk management encompasses:

(a) ***Aligning risk appetite and strategy*** – Management considers the Municipality's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.

(b) ***Enhancing risk response decisions*** – Enterprise risk management provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.

(c) ***Reducing operational surprises and losses*** – The Municipality will gain enhanced capability to identify potential events and establish responses, reducing operational surprises and associated costs or losses.

(d) ***Identifying and managing multiple and cross-enterprise risks*** – The Municipality faces a myriad of risks affecting different parts of the institution, and enterprise risk management facilitates effective responses to the interrelated impacts, and integrated responses to multiple risks.

(e) **Seizing opportunities** – By considering a full range of potential events, management is positioned to identify and proactively realise opportunities.

(f) **Improving deployment of capital** – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

These capabilities inherent in enterprise risk management will help the Municipality to achieve its performance and service delivery targets, and prevent loss of resources. Enterprise risk management will ensure effective reporting and compliance with laws and regulations, and help to avoid damage to the Municipality's reputation and associated consequences.

6. ROLES AND RESPONSIBILITIES

Enterprise Risk Management is everyone's responsibility and must be embedded into the everyday activities of all the institutions. This implies that ERM must be part of every decision that is made, every objective that is set and every process that is designed. Detailed ERM responsibilities for key risk management role players are listed below.

Members of Council

Councillors are collectively accountable for the achievement of the goals and objectives of the municipality and its municipal entities. As risk management is an important tool to support the achievement of these goals, it is important that the Councillors should provide leadership to governance and risk management.

Accounting Officer (Municipal Manager)

The Accounting Officer is accountable for the institution's risk management in terms of legislation. It is important that the Accounting Officer sets the right tone for risk management in the Municipality, this will ensure that the Municipality operates in a conducive control environment where the overall attitude, awareness, and actions of management regarding internal controls and their importance to the institution is at par with the stated vision, values and culture of the institution.

The MM's responsibilities include ensuring that all components of enterprise risk management are in place. The MM fulfils this duty by:

- Providing leadership and direction to management and staff. The MM shapes the values, principles and major operating policies that form the foundation of KwaDukuza Municipality's Enterprise Risk Management. The Council, MM, Executive Directors and Senior Managers set strategic objectives and strategy. They also set broad-based policies and develop KwaDukuza Municipality's Enterprise Risk Management philosophy, risk appetite and culture. They take actions concerning KwaDukuza Municipality's organisational structure, content and communication of key policies and the type of planning and reporting systems that KwaDukuza Municipality will use:

- Meeting periodically with Executive Directors and Senior Managers responsible for major business units and functional areas to review their responsibilities, including how they manage risk. The MM must gain knowledge of risks inherent to the municipal operations, risk responses and control improvements required and the status of efforts underway. To discharge this responsibility, the MM must clearly define the information he needs.
- The MM is required to assess KwaDukuza Municipality's Enterprise Risk Management capabilities, as he has ultimate ownership and responsibility for Enterprise Risk Management. One of the most important aspects of this responsibility is ensuring the presence of a positive internal environment. More than any other individual or function, the MM sets the tone at the top that influences internal environmental factors and other components of Enterprise Risk Management.
- The MM has been appointed to provide direction, guidance, support and to monitor Executive Directors and Senior Managers in effecting Enterprise Risk Management.

Executive Management

In terms of section 78 of the MFMA, Risk management responsibilities are extended to all Executive Directors and other officials of municipalities. This implies that responsibility for risk management vests at all levels of management and personnel and is not limited to only the Municipal Manager, the Risk Management Unit or Internal Audit Division.

Management is accountable to the Accounting Officer for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities of the Municipality. This needs to be done in such a manner as to ensure that risk management becomes a valuable strategic management tool for underpinning the efficacy of service delivery and value for money. Executive Directors in charge of institutional departments have overall responsibility for managing risks related to their department's objectives.

The Executive Management Team will fulfil the role of the Risk Management Committee. The Executive Management Team is accountable to the Audit & Risk Committee for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of KwaDukuza Municipality.

More specifically management is responsible for:

- Designing an Enterprise Risk Management programme in conjunction with the Risk Officer;
- Deciding on the manner in which risk mitigation will be embedded into management processes;
- Creating a culture of risk management within the KwaDukuza Municipality;
- Updating risk registers and providing risk management reports to the Risk Officer pertaining to risk and control;

- Identifying positive aspects of risk that could evolve into potential opportunities for KwaDukuza Municipality by viewing risk as an opportunity, by applying the risk/ reward principle in all decisions impacting on KwaDukuza Municipality;
- Taking responsibility for appropriate mitigation action and determining action dates;
- Utilising available resources to compile, develop and implement plans, procedures and controls within the framework of KwaDukuza Municipality's Enterprise Risk Management Policy to effectively manage the risks within KwaDukuza Municipality;
- Ensuring that adequate and cost effective risk management structures are in place;
- Identifying, evaluating and measuring risks and where possible quantifying and linking each identified risk to key risk indicators;
- Developing and implementing risk management plans including:
 - actions to optimise risk/ reward profile, maximise reward with risk contained within the approved risk appetite and tolerance limits;
 - implementation of cost effective preventative and contingent control measures; and
 - implementation of procedures to ensure adherence to legal and regulatory requirements.
- Monitoring of the Enterprise Risk Management processes on both a detailed and macro basis by evaluating changes, or potential changes to risk profiles;
- Implementing and maintaining adequate internal controls and monitoring the continued effectiveness thereof;
- Implementing those measures as recommended by the internal and external auditors, which, in their opinion, will enhance control at a reasonable cost;
- Reporting to the Audit and Risk Committee on the risk process and resultant risk/ reward profiles;
- Defining roles, responsibilities and accountabilities of Executive Directors and Senior Managers; and
- Providing policies, frameworks, methodologies and tools to the business units and key functional areas for identification, assessment and management of risks.

Chief Risk Officer

The Chief Risk Officer is responsible for:

- Deciding on a methodology and framework for Enterprise Risk Management;
- Undertaking a Gap Analysis of the entity's Enterprise Risk Management process at regular intervals;

- Performing reviews of the risk management process to improve the existing process;
 - Facilitating risk assessments;
 - Developing systems to facilitate risk monitoring and risk improvement;
 - Ensuring that all risk categories are included in the risk assessment;
 - Ensuring that key risk indicators are included in the risk register;
 - Aligning the risk identification process with KwaDukuza Municipality's business objectives;
 - Obtaining agreement on a system of risk quantification;
 - Identifying relevant legal and regulatory compliance requirements;
 - Compiling a consolidated risk register on an annual basis;
 - Costing and quantifying actual non-compliance incidences and losses incurred and formally reporting thereon;
 - Support review and reporting on the occupational health, safety and environmental policies and practices;
 - Creating mechanisms for identifying modes of change;
 - Consolidating all information pertaining to all risk related functions, processes and activities;
 - Transferring the knowledge in respect of an effective and sustainable process of risk identification, quantification and monitoring to management;
 - Recording the decisions regarding mitigation for every key risk facing KwaDukuza Municipality in the risk register;
- Deciding upon central solutions for common risks and for risks where central facilities are available;
- Liaising closely with Internal Audit to devise a risk auditing programme, based on the information reflected in the risk registers;
 - Benchmarking the performance of the risk management process to the risk management processes adopted by other public entities within South Africa;
 - Implementing a formalised risk information system;
 - Ensuring that risk management training is conducted at appropriate levels within the entity to inculcate a risk management culture;
 - Assisting in compiling risk registers for all functional areas at strategic, operational and project levels;
 - Communicating the risk framework and methodology to all management levels and to employees;
 - Ensuring that the necessary risk management documentation is developed in respect of the risk management process;

- Enabling the Audit & Risk committee to fulfil its responsibilities with regards to risk management;
- Communicating and managing the establishment and on-going maintenance of enterprise risk management pursuant to KwaDukuza Municipality's risk management vision;
- Ensuring proper risk management ownership by responsible managers;
- Validating that enterprise risk management is functioning in all functional areas and that all significant risks are being recognised and effectively managed on a timely manner;
- Communicating with the Audit & Risk committee regarding the status of Enterprise Risk Management;
- Developing integrated procedures to report major risks;
- Developing a standardised risk information model and automated process and ensuring it is usable across KwaDukuza Municipality;
- Maintaining a cost-benefit focus on Enterprise Risk Management;
- Working with management to ensure business plans and budgets include risk identification and management.

Risk Management Committee

The Risk Management Committee is an oversight and support committee responsible to the Accounting Officer for the monitoring of risk management. It is responsible for assisting the Accounting Officer in addressing its oversight requirements of risk management and evaluating the institution's performance with regard to risk management.

Audit Committee

The Audit Committee is responsible for providing the Accounting Officer with independent counsel, advice and direction in respect of risk management. The stakeholders rely on the Audit Committee for an independent and objective view of the institution's risks and effectiveness of the risk management process. In this way, the Audit Committee provides valuable assurance that stakeholder interests are protected.

Section 166 (2) of the MFMA states:

"(2) An audit committee is an independent advisory body which must–

(a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and management staff of the municipal entity, on matters relating to -

(ii) risk management."

Internal Audit Activity

Internal Audit is accountable to the Accounting Officer for providing independent assurance regarding the risk management activities of an institution. Hence, Internal Audit is responsible for:

- Providing assurance that management processes are adequate to identify and monitor significant risks;
- Using the outputs of risk assessments to direct internal audit plans;
- Providing ongoing evaluation of the risk management processes;
- Providing objective confirmations that the MM and Audit and Risk Committee receive the right quality of assurance and reliable information from management regarding risk;
- Providing assurance regarding Enterprise Risk Management processes from both a design and functional perspective;
- providing assurance regarding the effectiveness and efficiency of risk responses and related control activities; and
- Further providing assurance as to the completeness and accuracy of Enterprise Risk Management reporting

Section 165 of the MFMA requires that:

“(2) The internal audit unit of a municipality or municipal entity must –

- (a) prepare a risk based audit plan and an internal audit program for each financial year;
- (b) advise the accounting officer and report to the audit committee on the implementation on the internal audit plan and matters relating to:
 - (iv) risk and risk management.”

Provincial Internal Audit

The Provincial Internal Audit will provide an independent assurance to the Accounting Officer and management through its audit regarding adequacy and effectiveness of the organisations risk management process and activities

7. DEVELOPMENT OF RISK PROFILE

Risk profile plans shall be developed and reviewed on an annual basis. Three levels of risk profiles need to be developed and maintained at the institutions. These are

- Strategic,
- Operational and
- Project.

At minimum the risk profile should contain the following information

- Risk Category
- Risk Description
- Inherent Risk Rating
- Root Cause
- Consequences/ Impact
- Control Description
- Residual Risk Rating
- Action Plan
- Responsible person/Action owner
- Target date

The process to develop risk profile should be undertaken as follows:

7.1 Risk Identification

Management initially considers a range of potential risks – affected by both internal and external factors – without necessarily focusing on whether the potential impact is positive or negative.

But even potential risks with relatively remote possibility of occurrence should not be ignored at the risk identification stage if the potential impact on achieving an important objective is great.

7.2 Risk Categories

Potential risks are grouped into categories. By aggregating risks horizontally across an organisation and vertically within operating units, management develops an understanding of the interrelationships between risks, gaining enhanced information as a basis for risk assessment.

Risks in the municipality shall be categorized as indicated on the Risk model below.

7.2.1 Internal Risk Categories

- Strategic and service delivery risks
- Intergovernmental and Interdepartmental Co- ordination Risks
- Infrastructure Risks Governance and Reputational Risks
- Financial Risks
- Health and Safety/Security Risks
- Shareholder Risks
- Human Resources
- System Risks
- Process/operational
- Project risks
- Fraud and Corruption Risks
- Cultural
- Disaster Recovery/Business Continuity
- Knowledge and information management
- Litigation
- Loss / theft of assets

- Material resources (Procurement risk)
- Third party performance

7.2.2 External Risk Categories

- Economic environment
- Political Environment
- Social Environment
- Natural Environment
- Technological Environment
- Legislative Environment

7.3 Risk Assessment

Identified risks are analyzed in order to form a basis for determining how they should be managed. Risks are associated with related objectives that may be affected. Risks are assessed on both an inherent and a residual basis, and the assessment considers both risk likelihood and impact. A range of possible results may be associated with a potential event, and management needs to consider them together.

7.4 Risk Response

Risk responses fall within the following categories:

- **Avoidance**- Action is taken to exit the activities giving rise to risk. Risk avoidance may involve exiting a project, avoiding high risk investments, or not accepting a pioneering technical solution.
- **Reduction** – Action is taken to reduce the risk likelihood or impact, or both. This may involve any of a myriad of everyday business decisions. e.g. buying a generator to ensure electricity supply to a hospital.
- **Sharing** – Action is taken to reduce risk likelihood or impact by transferring or otherwise sharing a portion of the risk. Common risk-sharing techniques include purchasing insurance products, pooling risks, engaging in hedging transactions, or outsourcing an activity, public private partnership. e.g. taking out forward cover for foreign currency purchases.
- **Acceptance** – No action is taken to reduce the likelihood or impact of a risk. E.g. not to factor earthquakes greater than 5 on the Richter Scale to bridge construction due to the rare/remote probability of any seismic activity in the geographical area.

7.5 Evaluating Effect of Response on Residual and Desired Residual Risk

Each risk is rated according to the inherent risk rating criteria. The effectiveness of the existing risk responses is assessed for these risks. This is done by rating the control effectiveness. A decision is then needed to determine if the risk is managed to the desired levels of risk appetite. This is an assessment of the current residual risk.

7.6 Identifying Actions to Mitigate Risk Exposure

The residual risk gap identifies possible improvement opportunities. Action steps should be identified for the risks where there are residual risk gaps. The actions should specify the responsibilities and due dates. Management should track and monitor progress on the mitigation tasks identified.

7.8 Reporting

Like any other process, the success of risk management depends on the availability of reliable information and effective communication at various levels. Pertinent information should be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities.

7.9 Monitoring

If existing controls are weak and expose the organisation's activities to risks, the management should come up with the action plans to reduce risk to an acceptable level. The management should decide on the implementation date of the agreed upon action plan and the responsibility for the implementation of action plan should be assigned to capable officials.

It is critical that management should develop key performance indicators regarding the performance of agreed upon controls. Key performance indicators will provide the feedback regarding effectiveness of controls against identified risks.

Management's performance with the processes of ERM will be measured and monitored through the following performance management activities:

- monitoring of progress made by management with the implementation of the ERM methodology;
- monitoring of key risk indicators;
- monitoring of loss and incident data;
- management's progress made with risk mitigation action plans; and
- an annual quality assurance review of ERM performance.

8. POLICY IMPLEMENTATION

The policy shall upon approval be communicated to all staff members. Risk management workshops shall be conducted for Risk Management and Audit Committee members and for all relevant staff members

9. POLICY MONITORING AND EVALUATION

The Risk management section shall monitor and evaluate the implementation of the policy and shall report deviations to the Accounting Officer of the Municipality in writing.

This policy will be reviewed annually or as and when the need arises. The policy shall be reviewed to factor in changes in legal frameworks, organizational development, political and economic trends.

The amendment of this policy or any of the provisions thereof shall be reduced in writing and approved by the delegated official. Risk Management section shall be responsible to facilitate the review of the policy.

FORMAL POLICY APPROVAL

Risk Management policy is formally approved by Municipal Council and implemented by KwaDukuza Municipality with effect from date of signature.

Risk Management policy approval by:	
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N.J Mdakane	
Accounting Officer	Date
Risk Management adopted by KDM Council:	
C428	04/08/2020
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Resolution No	Date