

KWADUKUZA MUNICIPALITY



ENTERPRISE-WIDE RISK MANAGEMENT POLICY

FINANCIAL YEAR: 2023/2024

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1. POLICY STATEMENT

Enterprise-wide Risk Management forms a critical part of any municipality's strategic management. It is the process whereby municipality the municipality 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. Enterprise 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 enterprise-wide risk management is a sure expression of commitment to Batho Pele principles.

2. LEGAL MANDATE

a) 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.

b) Section 95I(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"

c) 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 Municipality. 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.”

d) King IV on Corporate Governance Principle 4 & 11

Principle 4 OF King IV on Corporate Governance state that: -the Council should appreciate that the municipality’s core purpose, its risks and opportunities, strategies, business model, performance and sustainable development are all inseparable elements of the value creation process.

Principle 11 of King IV on Corporate Governance state that: -the Council should govern risk in a way that supports the municipality in setting and achieving its strategic objectives.

3. TERMS AND DEFINITIONS

TERM	DEFINITION
Risk Management Committee	A committee appointed by the Accounting Officer / Authority to review the Municipality's system of risk management.
Audit Committee	An independent committee constituted to review the control, governance and risk management within the Municipality, established in terms of section 166 of the Municipal Finance Management Act
Accounting Officer	The municipal Manager.
Chief Risk Officer	The senior official who is the head of the risk management unit.
Risk Owner	The person accountable for managing a particular risk.
Risk Champion	A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.
Risk Management Unit	A business unit responsible for coordinating and supporting the overall Municipality risk management process, but which does not assume the responsibilities of Management for identifying, assessing and managing risk.
Internal Audit	An independent, objective assurance and consulting activity designed to add value and improve the Municipality's operations
Management	All officials of the Municipality with management responsibilities except for the Chief Risk Officer and officials reporting to him/her.
MFMA	Municipal Finance Management Act (Act No. 56 of 2003)
King Code	King IV report on Corporate Governance for South Africa 2016.

TERM	DEFINITION
Risk	<p>The Institute of Risk Management defines risk as “...<i>the uncertainty of an event occurring that could have an impact on the achievement of objectives</i>. 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 of impact and likelihood.”</p> <p>This definition applies to each and every level of the municipality and the overriding policy and philosophy is that the management of risk is the responsibility of management at each and every level in the municipality and its entity. The management of risk is no more or less important than the management of organisational resources and opportunities and it</p>
Enterprise Risk Management	<p>Enterprise Risk Management (ERM) is the application of risk management throughout the municipality rather than only in selected business areas or disciplines. ERM recognises that risks (including opportunities) are dynamic, often highly interdependent and ought not to be considered and managed in isolation. ERM responds to this challenge by providing a methodology for managing municipality-wide risks in a comprehensive and integrated way.</p> <p>ERM deals with risks and opportunities affecting value creation or preservation and is defined as follows with reference to COSO (The Committee of Sponsoring Organisations of the Treadway Commission):</p> <p>A continuous, proactive and systematic process, effected by a Municipality’s Executive Authority, Executive Council, Accounting Authority, Accounting Officer, Management and</p>
Risk Assessment	<p>Risk assessment is a systematic process to quantify or qualify the level of risk associated with a specific threat or event, to enrich the risk understanding available to the Municipality.</p>
Risk Appetite	<p>The amount and type of risk that the Municipality is <u>willing</u> to accept in pursuit of objectives</p>
Risk Tolerance	<p>The amount of risk the Municipality is <u>capable of bearing</u> as part of normal management practice (as opposed to the amount of risk it is willing to bear)</p>

4. PURPOSE / OBJECTIVE

The Enterprise 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 municipality are optimised. It describes the municipality's 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 municipality, 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

6.1 Members of the 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 this goal, it is important that the Councillors should provide leadership to governance and risk management.

6.2 Municipal Manager

The Municipal Manager is accountable for the municipality's risk management in terms of legislation. It is important that the Municipal Manager 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 municipality is at par with the stated vision, values and culture of the municipality.

6.3 Audit Committee

The Audit Committee is responsible for providing the Municipal Manager 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 municipality's risks and effectiveness of the risk management process. In this way, the Audit Committee provides valuable assurance that stakeholder interests are protected.

6.4 Risk Management Committee

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

6.5 Portfolio Committees

Portfolio Committees are standing committees of Council. They are not delegated any powers. They will make recommendations to the Executive Committee on risk management matters under their portfolio.

6.6 Management

Management is accountable to the Municipal Manager 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. Senior managers in charge of municipal departments have overall responsibility for managing risks related to their department's objectives.

6.7 Chief Risk Officer

The primary responsibility of the Chief Risk Officer is to bring to bear his / her specialist expertise to assist the municipality to embed and leverage the benefits of risk management to achieve its stated objectives. The Chief Risk Officer is accountable to the Municipal Manager for enabling the business to balance risk and reward and is responsible for coordinating the municipality's Enterprise Risk Management approach.

6.8 Risk Champions

The key part of the Risk Champions 's responsibility should involve intervening in instances where the risk management efforts are being hampered. e.g. lack of cooperation by management and other officials . Risk Champions should also add value to the risk management process by providing guidance and support to manage "problematic" risks and risk of transversal nature that require a multiple participant approach .

6.9 Internal Audit

Internal Audit is accountable to the Municipal Manager for providing independent assurance regarding the risk management activities of the municipality. Hence, Internal Audit is responsible for providing independent assurance that management has identified the municipality's risk and has responded effectively. Internal audit may also play an advisory and consulting role to management regarding risk management matters.

7. DEVELOPMENT OF RISK PROFILE

7.1 Risk Identification

Risk identification is a deliberate and systematic effort to identify and document the Municipality key risks. The objective of risk identification is to understand what is at risk within the context of the Municipality objectives and to generate a comprehensive inventory of risks based on the threats and events that might prevent, degrade, delay or enhance the achievement of the objectives.

To ensure completeness of risk identification, the Municipality should identify risk factors through considering both internal and external factors, through appropriate processes of:

a) Strategic risk identification involves identifying risks emanating from the strategic choices made by the Municipality, specifically with regard to whether such choices weaken or strengthen the Municipalities ability to execute its mandate:

- i) Strategic risk identification should precede the finalisation of strategic choices to ensure that potential risk issues are factored into the decision-making process for selecting the strategic options.
- ii) Risks inherent to the selected strategic choices should be documented, assessed and managed through the normal functioning of the system of risk management.
- iii) Strategic risks should be formally reviewed concurrently with changes in strategy, or at least once a year to consider new and emerging risks.

b) Operational risk identification involves identifying risks concerned with the Municipality's operations:

- i) Operational risk identification should seek to establish vulnerabilities introduced by employees, internal processes and systems, contractors, regulatory authorities and external events.
- ii) Operational risk identification should be an embedded continuous process to identify new and emerging risks and consider shifts in known risks through

mechanisms such as management and committee meetings, environmental scanning, process reviews and the like.

c) Project risk identification identifies risks inherent to particular projects:

- i) Project risks should be identified for prioritised projects.
- ii) For certain projects of significant materiality and which are long term in nature, a project risk register should be kept and reviewed quarterly to identify new and emerging risks.

7.2 Risk Analysis

Risk analysis involves developing an understanding of the risk. It further provides an input to risk evaluation and to decisions on whether risks need to be treated, and on the most appropriate risk response strategies. It can also provide an input into making decisions where choices must be made and the options involved in different types and levels of risk.

- a) The risk analysis will involve consideration of the root causes and/or sources of risk, their positive and negative consequences, and the likelihood of occurrence;
- b) Factors which affect the likelihood and consequences will also be identified along other attributes of the risk;
- c) Consideration will also be made of interdependencies between different risks and their sources and
- d) The analysis may be qualitative, quantitative and/or a combination of these depending on the circumstances. The qualitative risk analysis will focus on activities with a significant impact on achievement of strategic objectives and targets relating to the Annual Performance Plan; Operational plan which will ultimately affect service delivery; Disruption of normal operations which significantly impact performance of the Municipality thus affect service delivery.

7.3 Risk Evaluation

The purpose of risk evaluation is to assist in making a decision, based on the outcomes of the risk analysis, about which risks need to be prioritised for implementation. The risk evaluation involves comparing the level and type of risk found during the analysis phase against the Municipality's risk appetite. Risks will then be prioritized based on this assessment.

7.4 Risk Response

Risk response is concerned with developing strategies to reduce or eliminate the threats and events that give rise to risks. The Municipality will consider the following risk response strategies in mitigating the risks;

- a) **Avoid** - the risk by deciding not to start or to continue with the activity that gives rise to the risk;
- b) **Manage**- the risk by implementing the action plan to reduce the residual risk exposure;
- c) **Transfer**- the risk to another party more competent to manage it by, for example, contracting out services and/or establishing strategic partnerships and
- d) **Accept** -the risk where cost and strategy considerations rule out alternative strategies.

7.5 Communication and Reporting

Relevant information, properly and timeously communicated, is essential to equip the relevant officials to identify, assess and respond to risks. The municipality's risk communication and reporting process will support enhanced decision making and accountability through:

- a) dissemination of relevant, timely, accurate and complete information;
- b) communicating responsibilities and actions; and
- c) The Ethics, Fraud and Risk management committee, Audit committee, Executive management meetings and awareness programs will be used for communication and reporting.

7.6 Monitoring and Review

The Municipality will conduct quarterly risk reviews and monthly monitoring of action plans to identify emerging risks and to track progress on implementation of action plans. The main focus of the monitoring and review will be;

- a) To ascertain that controls are still effective and efficient in both their design and operation
- b) Obtaining further information to improve risk assessment;
- c) Analysing and learning lessons from events, changes, trends, successes and failures;
- d) Detecting changes in the external and internal context, including changes in the risk appetite and the risk itself which can require revision of risk response strategies and priorities; and identifying emerging risks.
- e) The results of the monitoring and review must also be considered during the review of the risk management policy and strategy.

8. POLICY IMPLEMENTATION

The policy shall upon approval be communicated to audit committee and all staff members.

9. POLICY MONITORING AND EVALUATION

The Risk management section shall monitor and evaluate the implementation of the policy. Any deviation from the policy shall be subjected to consequence management.

This policy will be reviewed annually or as and when the need arises.

10. POLICY APPROVAL

The Risk Management policy is formally approved for implementation by KwaDukuza Municipality with effect from the 1st of July.

Recommended by:

19/06/2023

Risk Management Committee

Date

Adopted by:

Council Resolution No

Date