

RAMOTSHERE MOILOA LOCAL MUNICIPALITY



**RISK MANAGEMENT POLICY
2014/2015 FINANCIAL YEAR**

RISK MANAGEMENT POLICY

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RISK MANAGEMENT POLICY

1. INTRODUCTION

Risk management is a valuable management tool which increases an Institution's prospects of success through minimizing negative outcomes and optimizing opportunities.

Local and international trends confirm that risk management is a strategic imperative rather than an option within high performing organizations.

The underlying intention of good governance is that institutions should through the risk management process achieve, among other things, the following outcomes:

- a) More sustainable and reliable delivery of services;
- b) Informed decisions underpinned by appropriate analysis;
- c) Innovation;
- d) Reduced waste;
- e) Prevention of fraud and corruption;
- f) Better value for money through more efficient use of resources; and
- g) Better outputs and outcomes through improved project and programme management.

Purpose is vision of the goal to be attained; policies are the plan of action or ways of administration by which vision is to become accomplishment.

High performing organizations therefore set clear realistic objectives, develop appropriate strategies aligned to the objective, understand the intrinsic risks associated therewith and direct resources towards managing such risks on the basis of cost benefit principles.

2. PURPOSE

The purpose of this policy is to provide direction and guidance with regards to the strategy and procedures that the municipality intends to implement in order to mitigate enterprise risks.

3. POLICY STATEMENT

The Executive Mayor and Municipal Manager have committed the Ramotshere Moiloa Local Municipality to a process of risk management that is in compliance with the Municipal Finance Management Act (MFMA), Act no 56 of 2003, the King Code III of Corporate Governance for South Africa 2009, as well as COSO Framework.

Risk Management is recognized as an integral part of responsible management and the Municipality therefore adopted a Risk Management Policy that stipulates that all

managers are responsible for the identification and effective mitigation of risks. This policy will be supported by an approved Risk Management Strategy, as well as other relevant risk management documentation which will serve as a source of reference regarding risk governance practices within the municipality.

The main focus of risk management is to enhance municipal service delivery by identifying and mitigating risks that would jeopardize the delivery of sustainable and affordable municipal services.

The reaching or fulfilling of the strategic objectives of the municipality as stipulated in the Integrated Development Plan (IDP) as well as the Service Delivery Budget Implementation Plan (SDBIP) will serve as criteria for successful risk management.

It is expected that management will ensure that risk management becomes embedded into all administrative and operational processes of the municipality.

Risk Management must become part of the thinking and decision making paradigm of all managers to ensure that risk responses remain current and dynamic.

It is expected that all officials will work together in a consistent and integrated manner, with the overall objective of reducing risks, as far as reasonably practicable.

Sound management of risks will enable the municipality to anticipate and respond to changes in the service delivery environment, as well as taking informed decisions under conditions of uncertainty.

To create an enabling environment for all managers to successfully mitigate risks, a Risk Management Framework will be implemented. To avoid confusion and ensure a high standard of risk management, it is expected that all managers will adhere to the Risk Management Framework.

The Executive Mayor and Municipal Manager are looking forward in working closely with all officials to mitigate all risks successfully.

4. REFERENCE TO OTHER DOCUMENTATION

To correctly comprehend the total risk management process within the municipality, the risk management policy should be read in conjunction with the following documents:

- a) Risk Management Strategy
- b) Risk Management Categories
- c) Risk Management Rating Tables
- d) Risk Management Tolerance Tables
- e) Fraud Prevention Plan
- f) Risk Management Implementation Plan

5. DEFINITION OF KEY CONCEPTS

To avoid confusion and misunderstanding, it is imperative to define key concepts with regards to risk management.

5.1 Risk

The term refers to an unwanted outcome, actual or potential, to the institution's service delivery and other performance objective, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which Management must be aware of and be prepared to exploit. This definition of "risk" also encompasses such opportunities.

According to ISO 31000, risk is the "*effect of uncertainty on objectives*", and an effect is a positive or negative deviation from what is expected. So, risk is the chance that there will be a positive or negative deviation from the objective the municipality expects to achieve.

ISO 31000 recognizes that organizations operate in an uncertain world. Whenever the municipality tries to achieve an objective, there's always the chance that things will not go according to plan. There's always the chance that the municipality will not achieve what it has set out to achieve in its strategic plans. Every step the institution takes to achieve an objective involves uncertainty.

Every step has an element of risk that needs to be managed. According to ISO 31000, the municipality can reduce uncertainty and manage risks by using a systematic approach to risk management.

Uncertainty is a state even partial, of deficiency of information related to understanding or knowledge of an event, its consequences, or likelihood. In the context of risk management, uncertainty exists whenever knowledge or understanding of an event, consequence, or likelihood is inadequate or incomplete. So, uncertainty can be reduced by getting better information and improving knowledge and understanding.

5.2 Inherent risk

The term refers to exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.

5.3 Residual Risk

The term refers to the remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the risk remaining after management has put in place measures to control the inherent risk)

5.4 Risk Appetite

The amount of residual risk that the institution is willing to accept.

5.5 Risk Factor

Any threat or event which creates, or has the potential to create risk.



5.6 Risk Tolerance

The amount of risk the institution is capable of bearing, as opposed to the amount of risk it is willing to bear.

5.7 Risk Identification

Risk identification is a deliberate and systematic effort to identify and document the institution's key risks.

The objective of risk identification is to understand what is at risk in the context of the municipality's explicit and implicit 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.

5.8 Risk Assessment

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 intelligence available to the institution.

The main purpose of risk assessment is to help the municipality to prioritize the most important risks as the institution is not expected to have the capacity to deal with all the risks in an equal manner.

5.9 Risk Management

Risk Management is a systematic and formalized process instituted by the Ramotshere Moiloa Local Municipality to identify, assess, manage, monitor and evaluate risks. Risk management is a valuable management tool which increases an institution's prospects of success through minimizing negative outcomes and optimizing opportunities.

Effective risk management requires:

- A strategic focus,
- Forward thinking and active approaches to management,
- Balance between the cost of managing risk and the anticipated benefits, and
- Contingency planning in the event that mission critical threats are realized.
- Active participation and the commitment of management

5.10 Enterprise-Wide Risk Management (ERM)

ERM is a broad-based application of risk management in all major functions and activities of the institution, rather than only selected areas, to isolate the material risks.

ERM represents a response to the dilemma that risks (including opportunities) are dynamic and often highly interdependent and need to be managed through a portfolio approach rather than as separate and static events, to achieve comprehensive and integrated attention.



ERM also calls for the municipality to look beyond itself, requiring the consideration of risks on performance regardless of whether risk is internally or externally generated.

5.11 Risk Management unit

A unit within the municipality that is responsible for co-coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibility of Management for identifying, assessing and managing risks.

The Risk Management Unit reports to the Executive Manager in the Office of the Municipal Manager.

The Risk Management Architecture is included in the Risk Management Strategy.

5.12 Accounting Officer

This refers to the official within the municipality that is ultimately responsible for the sound management of all enterprise risks. The Accounting Officer is responsible for ensuring that the institutional environment supports the effective functioning of Risk Management. This incumbent is the Municipal Manager.

5.13 Risk Owner

The term refers to person accountable for managing a particular risk. In the case of the municipality, this term refers to the Head of a Department or Directors who serve as the Head of a Department.

Risk Owners have the authority to manage a particular risk and is accountable to the Municipal Manager for doing so.

5.14 Action Owner

An action Owner is an official (Unit Manager) that is on an operational level, responsible for the mitigation of specific risk. The incumbent reports to the Head of the department. (Risk Owner)

5.15 Risk Manager

This term refer to a senior official who is the head of the Risk Management Unit. The primary responsibility of the Risk Manager is to assist the municipality to embed and leverage the benefits of risk management in order to achieve its stated objectives.

Focusing on enterprise-wide risk management programmes, the Risk Manager is tasked with the overall efficiency of the ERM function. This inclusive of the embedding of risk management practices and fostering a risk awareness culture within the Municipality.

5.16 Risk Co-Ordinators

A member/s of the Municipality who assist the Risk Manager in the execution of his/her duties.



5.17 Risk Management Steering Committee

A Committee appointed by the Municipal Manager to review the Institution's system of risk management and to advise him/her on progress with regards to the mitigation of risks. This Steering committee consists of heads of departments within Ramotshere Moiloa Local Municipality.

The primary objective of the Committee is to assist the Municipal Manager in discharging his/her accounting for risk management by reviewing the effectiveness of the institution's risk management systems, practices and procedures, and providing recommendations to the Municipal Manager for improvement.

5.18 Audit and Risk Committee

An independent committee constituted to review the control, governance and risk management within the Institution, established in terms of section 166 of the Municipal Finance Management Act (MFMA) Act No. 56 of 2003.

The Audit committee is responsible for providing the Accounting Officer with independent counsel, advice and direction in respect of risk management. The Audit and Risk Committee should provide an oversight function in order to ensure that the Accounting Officer and /or accounting Authority in carrying out their responsibilities, as required by MFMA and Treasury Regulations, as they relate to the municipality.

- a. Financial, management and other practices
- b. Internal controls, government and management of risks
- c. Compliance with laws, regulations and ethics

The Audit and Risk Committee should ensure that the:

- a. Accounting Officer facilitates a risk assessment to determine material risks to which the department is exposed and evaluate the strategy for managing those risks.
- b. Accounting Officer has an implementation plan to correct all items included in the Auditor General's audit report and that management responds timeously to recommendations by Internal Audit, Audit and Risk Committee (ARCOM) and Auditor General.
- c. Municipal Public Accounts Committee (MPAC) resolutions are implemented.
- d. Quarterly report of the Accounting Officer to the Audit and Risk Committee (ARCOM) is in line with the reporting framework to be developed by the Audit and Risk Committee.

stakeholders rely on the Audit and Risk Committee for an independent and objective view of the institution's risk and effectiveness of management processes.



6. RISK MANAGEMENT PHILOSOPHY

Risk events are usually neither random nor unpredictable. Risks can be understood, predicted and managed through classification, qualification and root cause analysis among other techniques.

Once understood, appropriate risk treatment can be determined.

Risk management should lead to improved performance and fewer and lower loss incidents.

Controls are not important or even reliable. What must be studied or understood is that risks are loss events, loss incidents and municipal service delivery performance of the lack thereof.

Every risk should be rated and tolerance levels established.

After risks are rated and tolerance levels established, it should be treated in any of the following ways:

- Risk avoidance
- Risk reduction
- Risk sharing
- Risk acceptance

Risk Management must become part of the thinking and decision making paradigm of all managers to ensure that risk responses remain current and dynamic.

It is expected that all officials will work together in a consistent and integrated manner, with the overall objective of reducing risks, as far as reasonably practicable.

7. FOCUS OF RISK MANAGEMENT

The main focus of risk management is to enhance municipal service delivery by identifying and mitigating risks that would jeopardize the delivery of sustainable and affordable municipal service, if they were to become a reality.

8. APPROACH TO RISK MANAGEMENT

Sound management of risks will enable the municipality to anticipate and respond to changes in the service delivery environment, as well as taking informed decisions under conditions of uncertainty.

The reaching or fulfilling of the strategic objectives of the municipality as stipulated in the integrated Development Plan (IDP) as well as the Service Delivery Budget Implementation Plan (SDBIP) will serve as the criteria for successful risk management.



It is expected that management will ensure that risk management become embedded into all administrative and operational processes of the Municipality.

9. OBJECTIVES OF RISK MANAGEMENT

The municipality will ensure that risk identification, assessment and treatment is a routine part of decision-making. In much the same way that consideration is given to budget availability or staffing resources.

Risk management will:

- Maximize the opportunity for Council to achieve its objectives
- Underpin corporate governance
- Provide a safer environment for all
- Ensure continuity of service
- Protect the public image of Council
- Risk management should not stifle initiative or cause inefficiency and lack of economy by operating unnecessarily or having excessive controls.

10. BENEFITS OF RISK MANAGEMENT

Risk management will assist the municipality to achieve, among other things, the following outcomes needed to underpin and performance:

- More sustainable and reliable delivery of services;
- Informed decisions underpinned by appropriate evaluation and analysis;
- Innovation;
- Reduced waste;
- Prevention of fraud and corruption;
- Better value for money through more efficient use of resources; and better outputs and outcomes through improved project and programme management

11. POLICY REVIEW

Since the first Risk Management Policy framework was adopted by Council, during December 2013, the effective management of risks is an ongoing endeavor.

The mitigation of risks within the municipality is by no means perfected and a lot of work and development still needs to take place.

In order to develop risk management further, the policy will be reviewed in an annual basis.

12. CONCLUSION

Risk management is a handy tool for managers in their quest to render affordable and sustainable municipal services in terms of the Integrated Development Plan (IDP).



It is trusted that this policy will result in the further embedment of risk management into the culture and decision making paradigm of all officials

13.ACKNOWLEDGEMENTS

To compile this policy document, the municipality relies heavily on the Public Sector Risk Management Framework as published by National Treasury.

14.PRIMARY CONTACTS

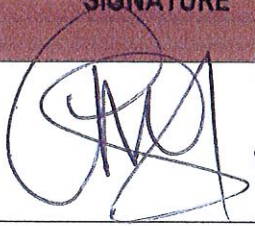
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RECOMMENDATION BY THE COUNCIL MEETING

The document was considered by the Council at a meeting that took place on the 17 December 2014.

It was resolved to recommend the approval of the Risk Management Policy.

15. APPROVAL

DESIGNATION	NAME	SIGNATURE	DATE
Municipal Manager	Mr C Maema		18/12/2014

16. COUNCIL RESOLUTION

COUNCIL RESOLUTION NUMBER	DATE
05/12/2014	18/12/2014