Musina Local Municipality

DRAFT RISK MANAGEMENT POLICY

1. Introduction

The management of risk is the process by which the Accounting Officer, Chief Financial Officer and the other senior management of Musina Local Municipality will pro-actively, purposefully and regularly, but at least annually, identify and define current as well as emerging business, financial and operational risks and identify appropriate, business and cost effective methods of managing these risks within Musina Local Municipality, as well as the risk to the stakeholders.

2. Purpose and scope

This Policy addresses key elements of the risk management framework to be implemented and maintained by Musina Local Municipality, which will allow for the management of risks within defined risk/return parameters, risk appetite and tolerances as well as risk management standards. As such, it provides a framework for the effective identification, evaluation, management, measurement and reporting of Musina Local Municipality's risks.

The risk management framework and this Policy adopt a broad definition of risk as follows:

> It is the chance of an event occurring that will have an impact (threat or opportunity) upon the achievement of the Municipality's business objectives.

Risk is often created by:

- Changes that takes place within the Municipality (i.e. people, systems, processes, technology, legislation and regulations);
- External influences (i.e. economics, availability of human resources and damages);
- Operations and complexity of processes;
- Volume of activities within a Municipality; and
- The nature of the control environment.

By defining risk in terms of an impact upon the achievement of those business objectives, Musina Local Municipality's risk management framework should recognize the need to manage risk so that the Municipality is sustainable as well as able to timeously meet its obligations to its broader stakeholders (i.e. the community, financiers, and service providers).

This concept of risk includes risk events in all of the following categories:

- Operational;
- Strategic;
- External;
- Physical; and

- Financial.

The primary goals of Musina Local Municipality's Risk Management Program are to support the overall mission of the Municipality by:

- Supporting balance sheet protection.
- Supporting business continuity.
- Supporting reputation risk.
- Defining risk management roles and responsibilities within the Municipality and outlining procedures to mitigate risks so as to ensure a dynamic and demonstratable process in which responsibility rests with line management with overall responsibility vested in the Accounting Officer and Chief Financial Officer.
- Ensuring pro-active, consistent, integrated and acceptable management of risk throughout the Municipality.
- Defining a reporting framework to ensure regular communication of pre-define risk management information to Council, Audit and Executive Committees, senior management and officials engaged in risk management activities.
- Remaining flexible to accommodate the changing risk profile and management needs of the Municipality while maintaining control of the overall risk position.
- Document the approved methodology for risk measurement.
- Providing a system or process to accommodate the central accumulation of risk data such as the development and maintenance of a risk register, which must form part of operational support and procedures.

3. Objective of the risk policy

The objective of the risk policy is to ensure that a strategic plan is developed that should address the following:

- An effective risk management architecture;
- A reporting system to facilitate risk reporting; and
- An effective culture of risk assessment.

This plan should include the process to identify current as well as emerging risks and the related response strategy to manage and mitigate against or minimise these risks. Risks must be identified per business function within Musina Local Municipality but also taking the other activities into account to ensure optimal management and results. Each of these risks must be assessed and the likelihood and the frequency of the cause of the risk occurring and the resulting impact severity of the risk on the functions and sustainability of Musina Local Municipality must be documented and considered by the Accounting Officer and Chief Financial Officer.

4. Risk Management Framework

This Policy is the starting point in the risk management framework and must be implemented to ensure that risk management becomes the concern of line management and everyone in the Municipality and that risk management practices are consistent across the whole of Municipality. The risk management framework adopted by this Policy is comprised of four key elements as illustrated below.

Identification

- all activities associated with the Municipality's business, both existing and new should be assessed in order to identify material current as well as emerging risks, which threaten the achievement of objectives or may cause

material loss or damage or business continuity implications for the stakeholders or reputation risks for the Municipality

Measurement

- the risks associated with any new activities will be evaluated in order to determine the potential exposure to the Municipality
- all material existing risks will be re-evaluated on at least an annual basis
- all risks will be evaluated on a quantitative basis and if this is not appropriate, qualitative factors will be adopted

Management

- appropriate risk management will enable the Municipality to both minimise loss and optimise opportunities
- the identification and monitoring of risk is the responsibility of the Accounting Officer but the Chief Financial Officer and Heads of Departments also accept joint responsibility
- the Accounting Officer will co-ordinate the risk management system, monitoring of results and the reporting of risks to the Chief Financial Officer
- the operation of risk mitigation procedures is the responsibility of the Accounting Officer and the Chief Financial Officer with support from the Heads of Departments

Reporting

- all new risks with a potential financial exposure greater than an agreed amount as set between the Accounting Authority, Accounting Officer and the Chief Financial Officer or with a high or greater qualitative rating, and any material changes to the existing risk profile must be reported to the Accounting Officer on a regular basis
- risks should be reported using the following key categories:

- safety/security
- service delivery/operational
- human resources
- strategic
- environmental
- financial
- reputation
- legal compliance
- political
- health

5. Accountability for Risk Management

The detailed line accountability for risk management is fully aligned with the Municipality's management structure. Accordingly, the approvals, responsibilities and accountabilities applicable to the identification, evaluation/analysis,

treatment, and results and reporting of the Municipality's risks are attributed to the Accounting Officer and the Chief Financial Officer.

The Chief Financial Officer is responsible for ultimate sign off of all risk information to the Council, and review prior to any sign-off.

6. Risk identification and tolerance

6.1 Risk identification

Musina Local Municipality will consider and assess the risk implications of all actions it undertakes in relation to both existing and proposed activities, systems and procedures. All risks identified will be evaluated and documented, together with the processes which mitigate against/manage those risks, and who is accountable for them. Risk identification is a line management responsibility.

6.2 Maximum risk exposure / risk tolerance

Musina Local Municipality will accept a commercial level of risk such that the long-term sustainability of the Municipality is reasonably assured.

Where new risks arise which exceed the stipulated measures set by the Accounting Officer and the Chief Financial Officer, they will be:

- evaluated as stipulated in this policy;
- immediately reported to the Accounting Officer;
- monitored through the risk management process; and
- promptly reported to the Chief Financial Officer together with a management strategy of the identified risk.

The proposed management strategy could fall into one or more of the following categories:

- accept the risk;
- reduce the risk
- spread the risk
- transfer the risk
- avoid the risk
- monitor the risk

7. Risk measurement

Risk is to be assessed by considering estimates of likelihood, severity and consequence.

Risk analysis may be undertaken using both quantitative and qualitative measures. Where possible all risk exposures should be measured using a quantitative or financial outcome and/or human resource implications.

This should be calculated as illustrated in the following example:

- Gross risk cost R100 maximum cost of a risk event to the Municipality
- Likelihood factor 0.5 the frequency with which the risk is likely to be realised, in this case, once every two years]
- Annual gross risk cost R50
- Control effectiveness 50% the effect that insurance or other control procedures have in reducing either gross risk cost or likelihood]
- Net annual risk cost R25

Where quantitative measures are not possible, risks will be measured using the following qualitative criteria:

Impact		Likelihood	
Measure	**Definition**	**Measure**	**Definition**
Extreme	Municipality cannot continue	Frequent	[once per month plus]
High	• 5 or more fatalities • Municipality reputation significantly damaged for 5 or more years	Annual	[once per year]
Medium	• 1 to 5 fatalities • Municipality reputation significantly damaged for 1 to 5 years	Periodic	[once every two to five years]
Low	• Injury • Minor reputation damage	Infrequent	[once every five years plus]

8. Reporting

8.1 Frequency and format

All new risks and changes to existing risks will be captured into the risk management system in the month they are identified.

The Accounting Officer will collect and aggregate the information and will report to the Chief Financial Officer, monthly, regarding the risk profile of the Municipality.

The Chief Financial Offer will report to the Council on a regular basis, both the current risk profile of the Municipality and a summary of any major changes since the last report.

8.2 Reporting categories

The categories of risk to be reported to the Chief Financial Officer and the Council are as follows:

- safety/security
- service delivery/operational
- human resources
- strategic
- environmental
- financial
- reputation
- legal compliance
- political
- health

9. Management / treatment

Risk treatment involves identifying the range of options for treating risk, assessing those options, preparing risk treatment plans and implementing those plans in the most business like as well as cost effective manner.

The selection and implementation of appropriate options for dealing with risk is the responsibility of the Senior Management of the Municipality, subject to the Chief Financial Officer ratifying or amending the strategy proposed by management as required for material risks that have been reported to them.

Where current risk mitigation controls are deemed ineffective and therefore warrant action, management will prepare appropriate control improvement and action plans. Included in each control plan will be the allocation of accountabilities, expected outcomes and action dates for the implementation and measurement of the control improvement plan.

The management of individual risks is somewhat subjective, however the following guidelines should be followed:

- the annual cost of risk control should not exceed the gross annual risk cost;
- Musina Local Municipality does not seek to eliminate all risks nor be a high risk taker - moderate levels of risk are acceptable; and
- the resources allocated to risk treatment should be given priority in the areas of safety, health, environmental, customer service, operational and financial.

10. Monitoring / review

The Chief Financial Officer will coordinate an annual review of the effectiveness of this policy as well as all organizational risks, uninsured and uninsurable risks together with the key managers in the Municipality. This annual review will take place immediately prior to the development of the annual business and integrated development plans so that it can have due regard to the current as well as the emerging risk profile of the business.

Internal Audit will monitor key controls identified in the risk management system as part of the annual audit plan developed in conjunction with the Accounting Officer and approved by the Audit Committee.

The Municipality will review the risk profile in developing their recommendations to the Council regarding the Municipality's risk financing (insurance) policy and strategy.

11. Liabilities and Risks payable in foreign currencies

The Municipal Management Finance Act No 56 of 2003 determines that no municipality or municipal entity may incur a liability or risk payable in a foreign currency. This however does not apply to debt regulated in Section 47 of the Municipal Management Finance Act or to the procurement of goods or services denominated in a foreign currency, but the Rand value of which is determined at the time of the procurement, or where this is not possible and risk is low, at the time of payment.

12. Internal Audit Unit

Musina Local Municipality must have an internal audit unit. The internal audit unit is responsible for the following:

- Preparing a risk based audit plan for each financial year
- Preparing an internal audit program for each financial year
- Advising the Municipal Manager and reporting to the audit committee on the following:

- The implementation of the audit plan; as well as any matters on
- Internal audit;
- Internal controls;
- Accounting procedures and practices;
- Risk and risk management;
- Performance management;
- Loss control;
- Compliance with the Municipal Finance Management Act No 56 of 2003; and
- Any other applicable legislation.

1. Perform any other such duties as may be assigned to the unit by the Municipal Manager.

Musina Local Municipality may determine that it is cost effective to outsource the auditing function. Musina Local Municipality may also require assistance to develop its internal capacity.

13. Audit Committee

An audit committee, as an independent advisory body, must be established.

The audit committee is responsible for the following:

a) Advising the Council, Municipal Manager and Management staff on the following matters:

- Internal audit;
- Internal financial controls;
- Accounting policies;
- Risk management;
- Adequacy, reliability and accuracy of financial reporting and information;
- Performance management;
- Effective governance;
- Compliance with the Municipal Finance Management Act No 56 of 2003;
- Compliance with the Division of Revenue Act; and any other applicable legislation.
- Performance evaluation;
- Any other issues referred to it by the municipality.

b) Review the annual financial statements;
c) Respond to the Council on any issues raised by the Auditor General;
d) Carry out any investigations into the financial affairs of the municipality as the Council may request.

The audit committee may have access to the financial records and any other relevant information of the municipality.

The audit committee must liaise with the internal auditors and the person designated to audit the financial statements of the municipality.

The audit committee must consist of at least three persons with Appropriate experience, the majority of whom may not be in the employ of the municipality.

The audit committee must meet at least four times a year.

The council must appoint the members of the audit committee. One of the members who is not in the employ of the municipality must be appointed as the chairperson of the committee.

No councillor may be a member of the audit committee.