uMtshezi Local Municipality
Risk Management Policy

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1. Introduction

1.1 It is important that the Accounting Officer (Municipal Manager) sets the right tone for risk management in the institution. Although all staff will be aware of the need to prevent loss and to safeguard stakeholders' interests, they may not be quite so clear about the institution's standpoint on risk.

1.2 It is therefore common for the Accounting Officer to publish a risk management policy. This is a statement that declares the institution's commitment to risk management.

1.3 The risk management policy will outline the institution's commitment to protecting the institution against adverse outcomes, which may impact negatively on service delivery. It will also confirm the institution's commitment to legal and regulatory compliance.

1.4 The risk management policy is a brief statement about the institution's commitment to risk management. It is advisable to publish and circulate the risk management policy to existing and new staff as part of the risk awareness strategy.

1.5 The Accounting Officer has committed uMtshezi Municipality to a process of risk management that is aligned to the principles of good corporate governance, as supported by the **Municipal Finance Management Act (MFMA), Act no 56 of 2003.**

1.6 Risk management is recognised as an integral part of responsible management and the municipality therefore adopts a comprehensive approach to the management of risk. ***The features of this process are outlined in the Institution's Risk Management Strategy.*** It is expected that all departments / sections, operations and processes will be subject to the risk management strategy. It is the intention that these departments / sections will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

1.7 Effective risk management is imperative to the municipality to fulfil its mandate, the service delivery expectations of the public and the performance expectations within the municipality.

1.8 The realisation of our strategic plan depends on the municipality's management and officials being able to take calculated risks in a way that does not jeopardise the direct interests of stakeholders. Sound management of risk will enable the municipality's management and officials to anticipate and respond to changes in our service delivery environment, as well as take informed decisions under conditions of uncertainty.

2. Purpose

2.1 An entity-wide approach to risk management will be adopted by the 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, ensuring that 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 officials, communities and other stakeholders in terms of corporate governance.

2.2 The purpose of this document is to set out the Municipality's Risk Management Policy and amongst other things it includes the following:

   a) The *objectives* of our Risk Management policy;

   b) *Definitions* of relevant terms;

   c) *Risk management principles*;

   d) Relative *roles and responsibilities*;

   e) The Municipality's '*Risk Tolerance*'; and

f) The *Risk Framework* and how it will work.

2.3 Risk Management in the municipality provides a framework to identify, assess and manage potential risks and opportunities. It provides a way for management to make informed decisions.

2.4 Effective Risk Management affects everyone in the municipality. To ensure a widespread understanding, Executive Management and all operational/business unit managers should be familiar with, and all staff and councillors are aware of, the principles set out in this document.

3. Risk Management Objectives

3.1 The objectives of this Risk Management policy is to assist management to make informed decisions which will:

a) Improve the municipality's performance on decision making and planning;

b) Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the municipality is encouraged;

c) Provide a sound basis for integrated risk management and internal control as components of good corporate governance.

3.2 The improvements and benefits which effective Risk Management should provide are:

a) An increased likelihood of achieving the municipality's aims, objectives and priorities;

b) Prioritising the allocation of resources;

c) Giving an early warning of potential problems; and

d) Providing key officials with the skills to be confident risk takers.

4. Definitions

4.1 For the purpose of this policy, the following words will be defined as follows:

Risk Management	*Risk Management* can be defined as the identification and evaluation of actual and potential risk areas as they pertain to the municipality as a whole, followed by a process of either termination, transfer, acceptance (tolerance) or mitigation of each risk.
Risk	A *risk* is something which could: ▪ Have an impact by not taking opportunities or not capitalising on corporate strengths, ▪ Prevent, influence the achievement of the set objectives, ▪ Cause financial disadvantage, i.e. additional costs or loss of money or assets, or ▪ Result in damage to or loss of an opportunity to enhance the municipality's reputation.
Corporate Risk	*Corporate Risk* is a significant risk requiring reference to and monitoring by senior management, i.e. those risks assessed as having a high impact on the business of the municipality and a high likelihood of occurring.
Operational Risk	*Operational Risk* is any less significant risk requiring resolution elsewhere in the organisation, i.e. risks with a medium or low impact and likelihood which are managed by Departments.

5. Risk Management Principles

5.1 The principles contained in this policy and strategy will be applied at both corporate and operational levels within the municipality.

5.2 The municipality's Risk Management Policy and Strategy will be applied to all operational aspects of the Municipality and will consider external strategic risks arising from or related to other government municipality's and the public, as well as wholly internal risks.

5.3 Our positive approach to risk management means that we will not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalising on corporate strengths.

6. General Principles

6.1 All risk management activities will be aligned to corporate aims, objectives and the municipality's priorities, and aims to protect and enhance the reputation and standing of the municipality.

6.2 Risk analysis will form part of the municipality strategic planning, business planning and investment / project appraisal procedures.

6.3 Risk management will be founded on a risk-based approach to internal control which will be embedded into day to day operations of the municipality.

6.4 Managers and staff at all levels will have the responsibility to identify, evaluate and manage or report risks.

7. Principles for Managing Specific Risks

7.1 Risk Management in the municipality should be proactive and reasoned. Corporate and operational risks should be identified, objectively assessed, and actively managed.

7.2 The aim is to anticipate, and where possible, avoid risks rather than dealing with their consequences. However, for some key areas where the likelihood of a risk occurring is relatively small, but the impact is high, we may cover that risk by developing Contingency Plans. For an example, we must develop Business Continuity Plans and or Disaster Recovery Plans. This will allow us to contain the negative effect of unlikely events which might occur.

7.3 In determining an appropriate response, the cost of control/risk management, and the impact of risks occurring will be balanced with the benefits of reducing and or managing risk. This means that we should not necessarily set up and monitor controls to counter risks where the cost and effort are disproportionate to the impact or expected benefits.

7.4 We also recognise that some risks can be managed by transferring them to a third party, for example by contracting out, Public Private Partnership arrangements, or by insurance.

8. Roles and Responsibilities

8.1 Responsibilities of the Accounting Officer / Municipal Manager:

8.1.1 The total process of risk management, which includes a related system of internal controls, is the responsibility of the Municipal Manager.

8.1.2 Amongst other things, the Municipal Manager is responsible for:

a) Communicating municipality policy and information about the risk management programme to all staff, and where appropriate to other stakeholders;

b) Defining the municipality's risk tolerance (the overall level of exposure and nature of risks which are acceptable to the municipality);

c) Setting policies on internal control based on the municipality's risk profile, its ability to manage the risks identified and the cost / benefit of related controls; and

d) Seeking regular assurance that the system of internal control is effective in managing risks in accordance with the established municipality policies.

8.2 Responsibilities of Senior Management:

8.2.1 Senior Management is accountable to the Municipal Manager for implementing and monitoring the process of risk management and integrating it into the day to day activities of the municipality. Senior Management is also accountable to the Municipal Manager for providing assurance that it has done so.

8.2.2 Although Senior Management may appoint a Chief Risk Officer or Risk Facilitator to assist in the execution of the risk management process, the accountability to the Municipal Manager remains with Senior Management and should be the responsibility of every official of the municipality.

8.3 Responsibilities of the Audit Committee and Internal Audit:

8.3.1 In the absence of a Risk Management Committee, the Audit committee and Internal Audit will assist management with the monitoring of the risk management process.

8.3.2 The internal audit function should be used to provide independent assurance in relation to management's assertions surrounding the effectiveness of risk management and internal control.

8.3.3 Internal audit should not assume the functions, systems and processes of risk management but should assist the Municipal Manager and management in the monitoring of the risk management process.

8.4 General:

8.4.1 The risk management process does not reside in any one individual or function but requires an inclusive team-based approach for effective application across the municipality.

8.4.2 To assist the Municipal Manager in the discharge of his/her duties and responsibilities, the Municipal Manager may appoint a dedicated committee to review the risk management process and the significant risks facing the municipality.

8.4.3 This committee should consider the risk strategy and policy and should monitor the process at operational level and the reporting thereon. The audit committee, to the extent that it is concerned with risk management, should consider the results of the risk management and internal control processes and the disclosure in the annual report.

9. Risk Tolerance

9.1 The Municipal Manager and Senior Management should encourage the taking of controlled risks, the grasping of new opportunities and the use of innovative approaches to further the interests of the municipality and achieve its objectives provided the resultant exposures are within the municipality's risk tolerance range.

9.2 The municipality's Risk Tolerance can be defined by reference to the following components:

9.2.1 Acceptable Risks

a) All officials should be willing and able to take calculated risks to achieve the municipality's objectives and to benefit the municipality. The associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.

b) Within the municipality, particular care is needed in taking any action which could:

- Impact on the reputation of the municipality;
- Impact on performance;
- Undermine the independent and objective review of activities;
- Result in any fines by regulatory bodies; or

> - Result in financial loss.

    c)   Any threat or opportunity which has a sizeable potential impact on any of the above should be examined, its exposures defined and it should be discussed with the appropriate line manager. Where there is significant potential impact and high likelihood of occurrence it should be referred to the risk committee.

9.2.2 Prohibited Risk Areas

    a)   The Municipality's policies and guidelines should show if there are any mandatory processes and procedures which should be complied with, e.g. the MFMA. Full compliance with these standards is required and confirmation of compliance will be sought in the Municipality's annual report. Non-compliance with prescribed procedures constitutes an unacceptable risk.

    b)   Some risks are acceptable provided the prescribed organisational process is followed, e.g. expenditure proposals, staff recruitment, and designated responsibilities/authorities are adhered to.

10.   Risk Framework

    9.1   The Municipality will maintain a 'Corporate Risk Profile' as a basis for implementing and monitoring the risk management activities. This profile will include details of the *Impact and Likelihood* of each of the risks identified, indicate *Ownership / Responsibility* and specify an *Action Plan* for treatment. Risks will be assessed as *Low*, *Medium* or *High* based on the **Risk Heat-map** – see **Appendix A** for an example of a Risk Heat-map. This will be reviewed and updated yearly. Progress of the risk management programme will be a standing Executive management meeting agenda item.

    9.2   To help to meet their responsibilities to identify, evaluate and manage operational risks, Senior Managers should maintain:

    a)   An Area / Divisional Risk profile which details the priority (impact and likelihood) and ownership within the Area/Division;

    b)   A risk management action plan; and

    c)   Evidence of regular reviews and monitoring of the profile and action plan, e.g. minutes of committee meetings.

Risk Heat-map

	Low	Medium	High
High	M	H	H
Medium	L	M	H
Low	L	L	M

Impact (vertical axis)

Likelihood (horizontal axis)