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MATATIELE LOCAL MUNICIPALITY

**RISK MANAGEMENT POLICY**

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## INDEX

	<u>PAGE</u>
<u>PART 1</u> INTRODUCTION	3
<u>PART 2</u> PURPOSE AND SCOPE	3
<u>PART 3</u> OBJECTIVE	4
<u>PART 4</u> ACCOUNTABILITY	5
<u>PART 5</u> FRAMEWORK	5
<u>PART 6</u> RISK MANAGEMENT STRATEGY	7
6.1 Risk Identification and Evaluation	7
6.2 Assessment of Controls	8
6.3 Residual Risks	10
6.4 Risk Profile	10
6.5 Control Self Assessment	12
6.6 Control Self Assessment	13
<u>PART 7</u> REVIEW	14

## 1. **INTRODUCTION**

The management of risk is the process by which the Accounting Officer, Chief Financial Officer and the other senior management of a 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 the Municipality, as well as the risk to the stakeholders.

## 2. **PURPOSE AND SCOPE**

The purpose of the risk assessment is to provide management with an assessment of the risk profile of the municipality. The risk analysis also provides an indication of the impact and likelihood of critical risks occurring that may prevent the Municipality from attaining the desired performance against its strategic objectives.

This Policy provides a framework for the effective identification, evaluation, management, measurement and reporting of the Municipality's risks.

The Policy adopt a broad definition of risk as follows:

“A risk is the probability of an event occurring or not occurring that may negatively impact on the attainment of the Municipality’s objectives. A risk is also defined as the probability of an opportunity presenting itself which the Municipality may not recognize and take advantage of.”

By defining risk in terms of an impact upon the achievement of those objectives, the 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).

The primary goals of the 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.
- Ensuring pro-active, consistent, integrated and acceptable management of risk throughout the Municipality.
- Defining a reporting framework to ensure regular communication of risk management information to Council, Audit and Executive Committees, senior management and officials engaged in risk management activities.
- 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 MANAGEMENT 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.

#### **4. ACCOUNTABILITY FOR RISK MANAGEMENT**

The approvals, responsibilities and accountabilities applicable to the identification, evaluation, treatment, results and reporting of the Municipality's risks are attributed to the Accounting Officer, as prescribed in Section 62(1)(c)(i), read with Section 95(c)(i), of the Municipal Finance Management Act.

The Internal Audit unit must advise the Accounting Officer, and report to the Audit Committee, on Risk and Risk management, in accordance with Section 165(2)(b)(iv) of the Municipal Finance Management Act.

The Audit Committee has the responsibility to advise Council, the political office bearers, the Accounting Officer and management on Risk management, in terms of Section 166(2)(a)(ii) of the Municipal Finance Management Act.

#### **5. RISK MANAGEMENT FRAMEWORK**

This Policy is the starting point in the risk management framework and is prepared 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.

##### **Establishments of Risk Management Committee**

A Risk Management Committee for the municipality will be established to oversee the implementation of the Risk management framework. The Committee shall comprise of the following disciplines:

- Municipal manager's office
- Financial Services
- Corporate Services
- Community Services

- Technical Services
- Electrical Services
- Protection services

The Committee shall be chaired by the Municipal Manager and shall meet at least 4 times per financial year.

Internal Audit will provide Secretarial services to the Committee.

### **Duties of the Committee**

The Committee shall:

- Ensure that the Risk Management Strategy is appropriate to the Municipality.
- Convene and facilitate Risk Assessment workshops for the purposes of identifying, analysing and evaluating risks.
- Prepare the Risk Profile of each Department.
- Ensure that the Risk Assessment and Risk Profile is completed prior to the end of each financial year.
- Oversee the implementation of the Strategy within the Organisation to ensure that Departments identify, analyse and rate risks and furthermore implement the necessary control measures as prescribed by management to respond to risks identified

## 6. RISK MANAGEMENT STRATEGY

The following strategy will be implemented:

### 6.1. Risk Identification And Evaluation

Risks will be identified and related to the process objectives for each department.

Risks will thereafter be evaluated in accordance with the following criteria:

Likelihood - The possibilities of the risk occurring and its implications

Impact - Consider total impact including service delivery, image of the organisation, staff morale and financial impact should the risk occur

Risks will then be measured and categorised as follows:

HIGH Risks that have a potential for creating a high negative impact on achieving organisational goals and objectives and should be attended to immediately, within 30 days.

MEDIUM Risks that have a potential for negative impact on achieving organisational goals and objectives but may be attended to and resolved within 3 months.

LOW Risks that have a low potential for a negative impact on achieving organisational goals and objectives but should be attended to and resolved within 6 months.

It is accepted that risks within the three categories are themselves subjected to further categorization. For instance, within the High-Risk category, it is accepted that some risks will be of a higher level than

others, whilst all of them will be globally categorized as “high”. In order to distinguish risks within a specified category, a further categorization, within each category, will be undertaken. In this regard a subjective value is attached to each raw risk identified. The subjective value does not reflect any technical or scientific method at arriving at the rating. It simply indicates the level of the risk as a subjective determination by management. Such a procedure is in accordance with internationally recognized methods of identifying and classifying risks.

The following subjective numeric values are attached to each category:

<b><u>RISK CATEGORY</u></b>	<b><u>SUBJECTIVE NUMERICAL RATING SCALE</u></b>
High	75 to 100
Medium	40 to 74
Low	01 to 39

All values are attached to raw risks, ignoring the effects of any control measures implemented or the impact of any compensating controls.

## 6.2. Assessment Of Controls

According to South African Auditing Standards, an “internal control system” consists of all the policies and procedures (internal controls) adopted by management of an entity to assist in achieving management’s objective of ensuring, as far as is practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Controls are those measures or activities that management may implement, in response to risks identified, to ensure that pre-defined organisational objectives will be attained.

Controls may include, but are not limited to:

- Laws
- Regulations
- Policies
- Procedures
- Rules
- Instructions
- Vision
- Mission Statement
- Strategic Objectives
- Organizational Values
- Code of Ethics
- Code of Conduct
- Organizational Structures
- Business Plans
- Strategic Plans
- Operational Plans
- Budgets
- Expenditure Control Activities
- Supervision
- Review Mechanisms
- Performance Assessment Mechanisms
- Quality Review Mechanisms

The Internal Audit Unit, in consultation with staff at the various activity levels, will identify all control measures implemented by analysing the activities themselves. Controls will be treated as a built-in mechanism with regard to activities.

Controls are assessed in terms of adequacy and effectiveness.

Adequacy refers to the design of the control. The control is assessed to determine whether the control mitigates the risk in terms of its design – Is the control measure designed adequately to respond to all aspects of the risk identified.

Effectiveness refers to the effect of the control activities designed and implemented. That is, control measures will be evaluated to determine whether these controls are working according to their design – are they functioning as management intended that they should function.

6.3. Controls are evaluated and rated as being either Strong, Medium or Weak. Non-existent controls are indicated as such in the assessment of controls.

6.4. Residual Risks

After documenting the activities; identifying, classifying and rating risks as well as identifying and rating the existing controls, the RESIDUAL RISKS per activity, will be established. Residual risks are the risks that are identified after taking into consideration the effect and impact of direct control measures implemented as well as the impact of compensating control measures, relative to a risk identified.

Residual Risks are calculated as follows:

<b>RAW RISK</b>	<b>CONTROL</b>	<b>RESIDUAL RISK</b>
High	Strong	Low
Medium	Strong	Low
Low	Strong	Low
High	Medium	Medium
Medium	Medium	Low
Low	Medium	Low
High	Weak	High
Medium	Weak	Medium
Low	Weak	Low

After the activities, risks and controls have been appropriately documented and dealt with as outlined above, the process documentation is confirmed with the respective officials involved with the relevant process activities.

Such a confirmation will include making a copy of the written documentation available to managers and a workshop session to collectively discuss the documentation and effect any necessary amendments.

#### 6.5. Risk Profile

A risk profile will be maintained by Internal Audit reflecting all activities with a residual risk and shall categorize the residual risks into High, Medium and Low. The residual risks will be depicted in tabular form and the rating of residual risks will be indicated. The schedule will make provision to record the action for the implementation of the necessary controls.

A risk profile per department and the municipality will be compiled.

A list of all risks rated high and medium, per department, will be made available to each departmental manager who shall sign to acknowledge receipt of the information.

The manager, in consultation with appropriate staff members and with assistance from the Internal Audit Function shall compile the control measures to be implemented in response to the risks identified.

Management shall identify the person/s responsible for the implementation of the control measure and the time frame within which the control measure will be implemented.

Internal Audit will review the measures implemented, in accordance with internal audit methodology, to determine the adequacy and effectiveness of the control measure implemented.

A list of risks rated low will also be made available to management. Management is, however, not required to implement control measures immediately since the Internal Audit Unit will perform substantive tests to determine the effectiveness of the control measures already implemented. In this regard, management shall deal with these risks as recommended in the Internal Audit Report after the substantive procedures have been performed.

The schedule will also make provision for management's review of the risk profile on a quarterly basis to:

- Determine whether the controls, as agreed by management, have been implemented
- Whether these controls are adequate and effective
- Whether any related risks or unforeseen risks have arisen
- Whether further control measures are necessary

#### 6.6. Control Self Assessment

The final phase of the risk management strategy requires continuous monitoring and evaluating of the risk profile consisting of:

- The self-assessment of the controls implemented in response to the risk profile developed.
- The rating of risks must be evaluated to determine the appropriateness thereof and to reclassify risks, if relevant.
- Unidentified risks that arise to be documented and analysed immediately and control measures implemented to respond to the risk identified.
- Management shall conduct a cost-benefit analysis to establish whether the benefits of implementing a control measure exceed the costs thereof. If not, the effects of the risk should be carefully analysed and appropriate action taken.
- Risks that are no longer relevant may be noted as such and removed from the risk profile.

Internal Audit shall conduct a review of the Control Self-Assessment undertaken by management.

## **7. MONITORING / REVIEW**

The Manager shall, on a regular basis, but at a minimum on an annual basis, review the risks identified in the risk profile, with due regard of the impact of any compensating controls, and report to Council on the effectiveness of the Risk management strategy.

The Accounting Officer will coordinate an annual review of the effectiveness of this policy 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.

