



FETAKGOMO LOCAL MUNICIPALITY
RISK MANAGEMENT POLICY

15 DECEMBER 2011

C45/11

Statement of Commitment

The Accounting Officer has committed dedicated personnel in the form of a committee to process 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**.

Risk management is recognised as an integral part of responsible management and the Institution 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.

Effective risk management is imperative to the Institution to fulfill its mandate, the service delivery expectations of the public and the performance expectations within the Institution.

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

The municipality subscribes to the fundamental principles that all resources will be applied economically to ensure the following:

- That the highest standards of service delivery;
- That a management system containing the appropriate elements aimed at minimising risks and costs in the interest of all stakeholders;
- That education and training of all staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and
- That there is maintenance of an environment, which promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.

The municipal -wide approach to risk management will be adopted by the council, 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 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 fulfill the expectations of employees, communities and other stakeholders in terms of corporate governance.

The risk policy statement shall be reviewed annually to reflect the recent /current stance on risk management.

Every employee has a part to play in this important endeavour and we look forward to working with you in achieving these aims.

Signed: _____

Accounting Officer: _____

Date: _____

1. Introduction

The management of risk is the process by which the Accounting Officer, Chief Financial Officer and other seniors management of the Fetakgomo 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 the Municipality.

2. Scope

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

The risk management framework and this Policy adopt a broad definition of risk as follows:
It is an event or occurrence that will have an impact (threat) upon the achievement of the Municipality's business objectives.

Risk is often created by:

- Changes that take 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.

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

- Operational;
- Strategic;
- External;
- Physical; and
- Financial.

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.

4. Risk Management Framework

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

A 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

A 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	<ul style="list-style-type: none"> • 5 or more fatalities • Municipality reputation significantly damaged for 5 or more years 	Annual	[once per year]

Medium	<ul style="list-style-type: none"> • 1 to 5 fatalities • Municipality reputation significantly damaged for 1 to 5 years 	Periodic	[once every two to five years]
Low	<ul style="list-style-type: none"> • Injury • Minor reputation damage 	Infrequent	[once every five years plus]

8. Key Role players in Risk Management

8.1. Audit Committee

Audit committee plays an oversight role on municipal risk management. Over and above this the committee:

- Advise the Accounting Officer on the development, implementation and review of the Risk Management Policy
- Review of the Annual Financial Statements
- Respond to Council on issues raised by Auditor General
- Carry out any investigations into the Financial Affairs of the municipality as requested by Council

8.2. Risk Management Committee

A management committee will be established to assist the Accounting Officer in monitoring of risk management, i.e., assist in designing, implementing and coordinating the municipal risk management initiatives. The committee will comprise members of the management team appointed by the Accounting Officer.

The Risk Management Committee is responsible for assisting the Accounting Officer in addressing its oversight requirements of risk management and evaluating and monitoring the institution's performance with regards to risk management. The role of the Risk Management Committee is to formulate, promote and review the institution's Risk Management objectives, strategy and policy and monitor the process at strategic, management and operational level. Interlia to the aforementioned responsibilities, Risk Management Committee is also expected to:

- Review the [risk management policy](#) and recommend for approval by the Accounting Officer;
- Review the risk appetite and [tolerance](#) and recommend for approval by the Accounting Officer;
- Review the institution's [risk identification](#) and [assessment](#) methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- Evaluate the effectiveness of mitigating strategies to address the material risks of the Institution;
- Report to the Accounting Officer any material changes to the risk profile of the Institution;
- Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses;

- Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;
- Set out the nature, role, responsibility and authority of the risk management function within the Institution for approval by the Accounting Officer,
- Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

The Committee shall meet at least four times per annum. The Chairperson of the Committee or a majority of the permanent members of the Committee may convene additional meetings as circumstances may dictate.

9. Reporting

9.1 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 Audit Committee on quarterly basis regarding the risk profile of the Municipality.

The Chief Financial Officer 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.

9.2 Reporting categories

The categories of risk to be reported to the Accounting Officer, Audit Committee and the Council are as follows:

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

10. Monitoring / review

The Accounting Officer will coordinate an annual review of the effectiveness of this policy as well as all organisational 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.