

UMGUNGUNDOVU DISTRICT MUNICIPALITY



uMGUNGUNDOVU
U M A S I P A L A W E S I F U N D A
D I S T R I C T M U N I C I P A L I T Y
D I S T R I K M U N I S I P A L I T E I T

RISK MANAGEMENT POLICY

2023/2024

FINANCIAL YEAR

TABLE OF CONTENT

1. DEFINITION OF RISK MANAGEMENT 3

2. PURPOSE OF THE POLICY 3

3. COMMITMENT STATEMENT 4

4. OBJECTIVES OF THE POLICY 4

5. MUNICIPALITY’S APPROACH TO RISK MANAGEMENT 5

6. ROLES AND RESPONSIBILITIES 5

6.1 RISK MANAGEMENT IMPLEMENTERS 5

6.2 RISK MANAGEMENT SUPPORT 8

6.3 RISK MANAGEMENT ASSURANCE PROVIDERS 9

6.4 RISK MANAGEMENT OVERSIGHT COMMITTEES 10

7. RISK APETITE AND RISK TOLERANCE 12

8. REVIEW OF POLICY 14

1. DEFINITION OF RISK MANAGEMENT

Risk is defined as:

- a) *The effect of uncertainty on the achievement of the Institution's IDP and SDBIP objectives caused by the presence of risk factors; and/or*
- b) *The failure to optimise opportunities to enhance the achievement of the IDP and SDBIP*

Risk management in the context of Enterprise Risk Management is a process which involves identifying and assessing risks using a structured method and developing the necessary controls in response to such risks thus, to provide reasonable assurance that the municipality will achieve its objectives as set out in the Integrated Development Plan and Service Delivery and Budget Implementation Plan.

Risk management is an important process and must be embedded in the planning and running of business of the municipality to identify those critical risks that threatens the achievement of municipal objectives.

2. PURPOSE OF THE POLICY

The risk management policy aims to ensure that risk management is:

- Proportionate to the level of risk within the organisation.
- Aligned with other business activities.
- Comprehensive, systematic, and structured.
- Embedded within business processes.
- Dynamic, responsive to emerging change

This policy is intended to manage risks in a proactive and integrated way by;

- reducing the likelihood of events that would have a negative impact on the organisation.
- increasing the likelihood of events that would have a positive impact on the organisation.
- improving accountability, decision making, transparency and visibility.
- executing change more effectively and efficiently; providing a better understanding of, and compliance with, relevant governance, legal and regulatory requirements, and ethical requirements.
- protecting revenue and enhancing value for money.

- protecting municipal reputation and maximising stakeholder confidence.
- controlling expenditure via effective budgetary management

3. COMMITMENT STATEMENT

The municipality is committed to the effective risk management and treatment of risk to achieve its objectives. Management of risk is the responsibility of Council, the Municipal Manager, Management, and all employees of the municipality.

The municipality will ensure that:

- Risk management is an integral part of the organisation's key business planning, resourcing and decision-making process.
- There is a consistent and systematic approach to the management of risks across the institution, and that the risk management strategy is implemented as planned.
- Staff have the necessary training to allow them to participate in risk management activities.
- That the municipality is honest in relation to the risks and challenges facing the institution.
- Employees become aware of the risks associated with their area of work and must manage these risks to be within the tolerance level by using risk management response strategies outlined in the municipality's risk management strategy.

4. OBJECTIVES OF THE POLICY

- To promote risk management culture within the municipality through early identification, assessment and treatment of risks that may affect its ability to achieve its objectives.
- To provide clarity on key aspects of risk management as well as risk management processes.
- To hold management and officials accountable for the implementation of risk management in their area of responsibility.
- To create an environment where all the municipality's employees take responsibility for managing risk.
- To create a more risk aware organisational culture through enhanced communication and reporting risk; and
- To improve corporate governance and compliance with relevant legislation.

5. MUNICIPALITY'S APPROACH TO RISK MANAGEMENT

The council's approach to risk and opportunity management has been developed to support the key requirements of good corporate governance:

- **Open and Transparent:** The approach to managing risks will be open and transparent. Employees, councillors' members of the public, partners and outside organisations should have access to information on our current risks and opportunities and how the council is managing them. Risk management supports and enhances this decision-making process.
- **Consistency:** There will be consistency of approach to identifying, assessing and managing risks across the organisation. The framework will ensure that the risks are reviewed regularly and that any changes in circumstances are recorded and acted upon.
- **Accountability:** There will be clear accountability for risks. Recorded risks will be open to regular internal audit and audit inspection by external auditors.

6. ROLES AND RESPONSIBILITIES

6.1 RISK MANAGEMENT IMPLEMENTERS

Management and all officials within the municipality shall be responsible for the implementation of risk management within the organisation. These roles include.

- **ACCOUNTING OFFICER**

Responsibilities of the accounting officer shall include.

- a) setting an appropriate tone by supporting and being seen to support the Institution's aspirations for effective risk management.
- b) delegating responsibilities for risk management to Management and internal functions such as the Risk Management Committee, Fraud Prevention Committee, Finance Committee, Information and Communication Technology Committee, and holding them accountable;
- c) holding Management accountable for designing, implementing, monitoring and integrating risk management into their day-to-day activities

- d) providing leadership and guidance to enable Management and internal structures responsible for various aspects of risk management to properly perform their functions.
- e) ensuring that the control environment supports the effective functioning of risk management.
- f) considering inputs and recommendations of the Audit Committee and Risk Management Committee, and recommend for approval of risk and fraud management implementation strategies.
- g) devoting personal attention to overseeing management of the priority risks;
- h) leveraging the Audit Committee, Internal Audit, Auditor-General and Risk Management Committee for assurance on the effectiveness of risk management.
- i) ensuring appropriate action in respect of the recommendations of the Audit Committee, Internal Audit, Auditor-General and Risk Management Committee to improve risk management; and
- j) providing assurance to relevant stakeholders that priority risks are properly identified, assessed and mitigated

- **MANAGEMENT**

- a) Executing their responsibilities as set out in the risk management strategy;
- b) To focus on the management of those risks that require further mitigation in order to maintain compliance with our risk appetite and that could have a significant effect on our ability to achieve our strategic objectives.
- c) Empower officials to perform effectively in their risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development.
- d) devoting personal attention to overseeing the management of key risks within their area of responsibility.
- e) Maintain a co-operative relationship with the Risk Management Unit and Risk Champion.
- f) Maintaining the proper functioning of the control environment within their area of responsibility.
- g) Monitoring of risk management within their area of responsibility.
- h) Hold officials accountable for their specific risk management responsibilities.
- i) Implement the directives of the Accounting Officer / Authority concerning risk management.
- j) Prioritizing and ranking risks in their area of responsibility to focus responses and interventions on risks outside the Institution's tolerance levels;

- k) Assessing the effectiveness of risk management within area of responsibility;
- l) Aligning the functional risk management methodologies and processes with the Institutional process;
- m) Providing risk management reports.
- n) Reporting to the Risk Management and Audit Committees as may be requested

- **OTHER MUNICIPAL OFFICIALS**

Responsibilities of other Municipal officials shall include.

- a) To be aware of the risks associated with their work
- b) Report suspicion of fraud and corruption through the approved processes of whistle blow;
- c) Familiarity with the overall risk management vision, risk management strategy, Anti- fraud Corruption Strategy, risk management policy and risk management policy.
- d) Inform their supervisors and/or the Risk Management Unit of new risks and significant changes in known risks.
- e) Adhere to the code of conduct of the institution.
- f) Applying the risk management processes in their respective functions.
- g) Implementing the delegated action plans to address the identified risks;
- h) Escalating instances where management of risk is beyond their control; and
- i) Co-operating with other role players in the risk management process and providing information as required.
- j) Report inefficient, unnecessary, or unworkable controls
- k) Participate in risk identification and risk assessment processes within relevant units/sections.
- l) Work within the risk appetite and tolerance levels set.

6.2 RISK MANAGEMENT SUPPORT

- **RISK MANAGEMENT CHAMPIONS**

Responsibilities of the risk champions shall include.

- a) Advocating the culture of change and adopting risk management as a professional discipline to be adopted in everyday management of activities and to strategically influence the current way of doing things which is compliance driven.
- b) Educating the stakeholders of the importance of managing risk in dealing with public funds, the responsibility that goes beyond meeting the requirements of meeting the requirements of financial management prescripts but most importantly impacting positively service delivery.
- c) Communicating the right message and driving this message to influence behaviour and discipline in getting the basics right. This extends further to ensuring the use of a common risk management language and consistent messages in all communications,
- d) Informing the users and stakeholders of current demands, need to improve, what to improve and how to improve to leave the legacy that goes beyond compliance, but continuous improvement of accountability and service delivery.

- **CHIEF RISK OFFICER**

Responsibilities of the Chief Risk officer shall include

- a) being responsible for the Risk Management Unit and other delegated functions by the Accounting Officer;
- b) determining, implementing and maintaining effective risk management infrastructure, policies, procedures and processes;
- c) ensuring that the Audit Committee, Risk Management Committee and senior management are adequately appraised and trained on current and emerging risk management concepts and principles;
- d) establishing, communicating and facilitating the use of appropriate risk management methodologies, tools and techniques;
- e) working with management and staff to establish and maintain effective risk management in their areas of responsibility, including the reform of internal processes and policies to incorporate elements and practice of risk management at the operational/functional level;

- f) collating, aggregating, interpreting, and analysing the results of risk assessments to extract risk intelligence.
- g) monitoring the Institution's risk profile, ensuring that major risks are identified and reported upwards.
- h) facilitating Institution-wide risk evaluation and monitoring the capabilities around the management of the major risks.
- i) Communicating the Institution's risk management framework to all stakeholders in the Institution and monitoring its implementation.
- j) To facilitate the development of a risk management culture throughout the organisation
- k) Facilitating workshop for the Audit Committee, Council on the ERM and training all stakeholders in their risk management functions

6.3 RISK MANAGEMENT ASSURANCE PROVIDERS

- **INTERNAL AUDIT**

Responsibilities of Internal Audit shall include:

- a) Provide assurance that the risk management culture in the Institution is an appropriate one;
- b) Provide assurance that the risk register is an appropriate reflection of the risks facing the Institution.
- c) Provide assurance that risk management is carried out in a manner that benefits the Institution; and
- d) Provide assurance that the risk management strategy, risk treatment plan and Anti-Fraud Corruption Strategy have been effectively implemented within the Institution.

- **AUDITOR GENERAL**

The Auditor-General provides an independent opinion on the effectiveness of risk management as part of the regularity audit. In providing the audit opinion, the Auditor- General focuses on:

- a) determining whether the risk management policy, strategy and implementation plan are in place and are appropriate.
- b) assessing the implementation of the risk management policy, strategy and implementation plan;

- c) reviewing the risk identification process to determine if it is sufficiently robust to facilitate the timely, correct and complete identification of significant risks, including new and emerging risks.
- d) reviewing the risk assessment process to determine if it is sufficiently robust to facilitate timely and accurate risk rating and prioritisation; and e) determining whether the management action plans to mitigate the priority risks are appropriate and are being effectively implemented.

6.4 RISK MANAGEMENT OVERSIGHT COMMITTEES

- **RISK MANAGEMENT COMMITTEE**

Responsibilities of the risk committee shall include.

- a) Evaluate the effectiveness of monitoring systems relating to corruption risk and the results of investigation and follow up on alleged fraud matters.
- b) Review and recommend for the Council's approval, the:
 - I. risk management policy;
 - II. risk management strategy;
 - III. risk management implementation plan;
 - IV. Municipality's risk appetite and risk tolerance.
 - V. Risk Identification and Assessment Methodology
 - VI. Any material findings and recommendations made by the Assurance Providers
 - VII. Anti-Fraud Corruption Strategy
- c) Receive regular reports and approve the Risk Register along with its management arrangements.
- d) Municipality's risk tolerance, ensuring that limits are supported by a rigorous analysis and expert judgement of the municipality's ability to withstand significant shocks; and
- e) the municipality's ability to recover financially and operationally from significant shocks. I
- f) Municipality's risk identification and assessment methodologies, after satisfying itself of their effectiveness in timeously and accurately identifying and assessing the municipality's risks
- g) Evaluate the extent and effectiveness of integration of risk management within the municipality;
- h) Assess the implementation of the risk management policy and strategy (including plan);
- i) Evaluate the effectiveness of the mitigating strategies implemented to address the material risks of the municipality.
- j) Review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations;

- k) Interact with the Audit Committee to share information relating to material risks of the Institution; and
- l) Provide timely and useful reports to Audit Committee and Council on the state of risk management, together with accompanying recommendations to address any deficiencies identified by the Committee.

- **AUDIT COMMITTEE**

- a) reviewing and recommending disclosures on matters of risk in the annual financial statements and annual report;
- b) reviewing and providing regular feedback to the Accounting Officer on the adequacy and effectiveness of risk management in the Institution, including recommendations for improvement;
- c) ensuring that the Internal Audit and Auditor-General plans are aligned to the risk profile of the Institution.
- d) providing oversight over the combined assurance process
- e) reviewing and concurring with the Institution's risk appetite
- f) receiving and considering reports from the Risk Management Committee
- g) satisfying itself that it has appropriately addressed the following areas:
 - I. financial reporting risks, including the risk of fraud.
 - II. internal financial controls; and
 - III. IT risks as they relate to financial reporting.
- h) Evaluate the effectiveness of Internal Audit I its responsibilities for risk management

- **MUNICIPAL PUBLIC ACCOUNTS COMMITTEE**

The Municipal Public Accounts Committee is established through section 79 of the Municipal Structures Act in order to promote transparency, accountability, good governance, effective financial management, and quality service delivery at municipalities.

Its primary function in relation to risk management includes;

- a) Consider and evaluate the risk management content contained in the annual report and to make recommendations to Council when adopting an oversight report on the annual report.
- b) Review information relating to past recommendations made on the Annual Report on risk management including the quarterly and mid-year reports.

- c) Examine audit reports of the municipality, taking into consideration improvements from previous reports and must evaluate the extent to which the Audit Committee's and the Auditor General's recommendations relating to risk management have been implemented; and
- d) To perform any other functions assigned to it through a resolution of Council within its area of responsibility.

7. RISK APETITE AND RISK TOLERANCE

The Municipal manager must ensure that there is a risk culture in the municipality. The municipal manager must ensure that the risk appetite and risk tolerance levels of the municipality have been set and all staff adheres to it, the risk culture must be reviewed on an annual basis.

- **RISK APETITE**

The municipality manages public funds to implement and develop infrastructure and buys other assets for the purposes of rendering basic services to the public at a minimum fee, the environment in which the municipality operates is highly regulated, political and vulnerable bad publicity, violence and public unrest. The municipality, therefore, cannot afford to take any risk in the course of running its operations.

- **RISK TOLERANCE**

The municipality shall set its risk tolerance levels per objective category according to Strategic, Reporting, Compliance and Operational objectives. The tolerance levels are subject to review on an annual basis, and are as follows:

Tolerance of risk towards strategic objectives: The municipality;

- has a **low** tolerance for risks which might negatively impact on its reputation with the community;
- has a **zero** tolerance for risks which may result into protests, unrest and public violence;
- has a **zero** tolerance for risks which may result in the discontinuation of projects that are critical for service delivery;
- has a **zero** tolerance for risks which may result in bad publicity by the media;

- has a **low** risk tolerance for the risk of unrealistic and non-credible budgeting that may result in unauthorised expenditure Has a low risk tolerance for the risk of unrealistic and non-credible budgeting that may result in unauthorised expenditure
- has a **zero** tolerance for fraud and corruption risks.

1.1.1 *Tolerance of risk towards Compliance objectives:* The municipality.

1.1.1.1 Has a **zero** tolerance to risks that are in contravention of the MFMA, Systems Act, and other Acts;

1.1.1.2 Does not risk or accept risks (**zero tolerance**) that poses a danger to the environment and that, or may contravene the environment laws of the Republic of Southern Africa.

1.1.1.3 Does not tolerate risks (**zero tolerance**) that will result in the late or non-submission of Annual Financial Statements for Audit, Section 71 reports, budget returns and other relevant reports due to be submitted to external regulatory bodies;

1.1.1.4 Has a **low** tolerance to risks which may result, in the public viewing the municipality as not upholding the “*Batho Pele*” principles;

1.1.2 *Tolerance of risk towards Reporting objectives:* The municipality;

1.1.2.1 Does not tolerate risks or the risk that quarterly reports and reporting on the SDBIP are inaccurate or inconsistent;

1.1.2.2 Has a low tolerance for risks of inaccurate information reported in the Annual Report;

1.1.2.3 Has a low tolerance for the late submission of internal reports however, does not tolerate the late submission of reports otherwise required by a law of the Republic of South Africa or any regulation, standard or a practice note issued by any of the external bodies or institutions to which the municipality should report.

1.1.2.4 Has a low tolerance for risks compromising the quality of financial reporting.

1.1.3 *Tolerance of risks towards Operational objectives:* The municipality.

1.1.3.1 has a **low** tolerance for the risk that may result in material financial losses;

1.1.3.2 has **low** tolerance to the risk of inaccurate billing and customer accounts;

- 1.1.3.3 does not tolerate risks (**zero tolerance**) that pose a danger to the safety, lives or health of its employees or any member of the public in the course of service delivery;
- 1.1.3.4 has a **zero** tolerance to the risk of loss of strategic assets which are especially, critical for service delivery;
- 1.1.3.5 has a **low** tolerance to risks which if they materialise will result in irregular, fruitless and wasteful expenditure;
- 1.1.3.6 has a **low** tolerance for the risk of procuring goods of a poor quality for the purpose of service delivery;
- 1.1.3.7 has a **zero** tolerance for the risk of contamination of natural water sources, purified water in storage facilities;
- 1.1.3.8 has a **low** tolerance for risks resulting in reticulation losses of water;
- 1.1.3.9 has **low** tolerance for the risk of Loss of information resulting from lack of backups, theft or lack of access controls;
- 1.1.3.10 has **zero** risk tolerance for fraud;
- 1.1.3.11 Has a **low** tolerance for risks, which may otherwise compromise the safety of important and highly confidential information.

8. REVIEW OF POLICY

This policy will be reviewed by the Risk Management Committee on an annual basis to ensure that it remains suitable for its purpose, with any proposed changes being recommended to Council for approval.

