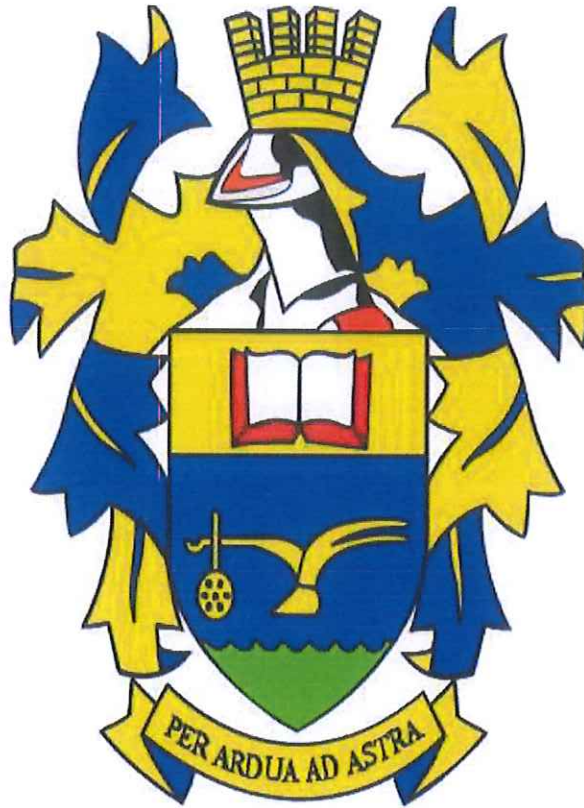


DIPALESENG LOCAL MUNICIPALITY



RISK MANAGEMENT POLICY

2018/2019

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1. INTRODUCTION AND PURPOSE

1.1 No organization has the luxury of functioning in a risk-free environment and municipalities are especially vulnerable to risks associated with fulfilling their mandates. The aim of this policy is not to eliminate risk, rather to manage the risks involved in all the Council's activities to maximise opportunities and minimise adversity. The policy is also intended to meet the statutory and legislative requirements to ensure compliance and to enable Dipaleseng Local Municipality to achieve their set objectives.

1.2 ISO 31000 states that the purpose of risk management is the creation and protection of value. It improves performance, encourages innovation and supports the achievement of objectives. The principles set out in ISO 31000 provide guidance on the characteristics of effective and efficient risk management, communicating its value and explaining its intention and purpose. Therefore it is of importance that this policy provides direction and guidance with regards to the strategy and procedures that the municipality intends to implement in order to mitigate enterprise risks.

2. SCOPE OF THE POLICY

This policy is applicable to all employees and Council of Dipaleseng Local Municipality.

3. LEGISLATIVE REQUIREMENTS AND OTHER PRESCRIPTS

The following are the legislative requirements for formulation and implementation of this Policy:-

- 3.1 MFMA Section 62 and Section 95
- 3.2 Treasury Regulations Section 3.2.1
- 3.3 Public Sector Risk Management Framework
- 3.4 King IV Report
- 3.5 COSO Framework

4. DEFINITION OF TERMINOLOGY /GLOSSARY OF TERMS

4.1 In this Policy, unless the context indicates otherwise –

- 4.2 **“Accounting Officer”** means: The Municipal Manager as defined in terms of section 55 of the Municipal systems Act or any person delegated as such;
- 4.3 **“Audit Committee”** means: An independent advisory body constituted in terms of section 166 of the Municipal Finance Management Act 56/2003;
- 4.4 **“Manager: Internal Audit”** means: A senior official within the Municipality responsible for internal audit unit;
- 4.5 **“Chief Risk Officer”** means: A senior official within the Municipality responsible for risk Management unit;

4.6 **“Executive Authority”** means: Executive authority as defined in terms of section 11 of the Municipal Systems Amendment Act;

4.7 **“Inherent Risk”** means: The exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such factors.

4.8 **“Internal Auditing”** means: An independent, objective assurance and consulting activity designed to add value and improve Municipality’s operations. It helps the Municipality to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

4.9 **“King IV” means:** The King Code of Corporate Governance for South Africa 2016.

4.10 **“Management”** means: Managers appointed in terms of section 57 of the Municipal System Amendment Act and managers directly accountable to municipal managers.

4.11. **“Municipality”:** for the purpose of this policy, municipality shall mean Dipaleseng Local Municipality.

4.11 **“Other Official”** means: An official other than the Accounting Officer / Authority, Management, Chief Risk Officer and his/her staff.

4.12 **“Residual Risk”** means: The remaining exposure after the mitigating effects of deliberate management intervention(s) to control such exposure (the remaining risk after Management has put in place measures to control the inherent risk).

4.13 **“Risk”** means: A threat (actual or potential) that causes uncertainty in the achievement the Council’s Objectives

4.14 **“Risk Appetite”** means: The amount of residual risk that the Institution is willing to accept.

4.15 **“Risk Champion”** means: A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, but who is not the risk owner.

4.16 **“Risk Factor”** means: Any threat or event which creates, or has the potential to create risk.

4.17 **“Risk Management”** means: is a continuous, proactive and systematic process, effected by the Municipality’s executive authority, accounting authority, management and other personnel, applied in strategic planning and across the Municipality, designed to identify potential events that may affect the Municipality, and manage risks to be within its risk tolerance, to provide reasonable assurance regarding the achievement of objectives.

4.18 **“Risk Management Committee”** means: A committee appointed by the Accounting Officer / Authority to review the Institution’s system of risk management.

4.19 **“Risk Management Unit”** means: A business unit responsible for coordinating and supporting the overall Institutional risk management process, but which does not assume the responsibilities of Management for identifying, assessing and managing risk.

4.20 **“Risk Owner”** means: The person accountable for managing a particular risk.

4.21 **“Risk Tolerance”** means: The amount of risk the Institution is capable of bearing (as opposed to the amount of risk it is willing to bear)

5. BASIS OF RISK

5.1 Risk is often created by:

- (i) Changes that takes place within the Municipality (i.e. people, systems, processes, technology, legislations and regulations and politics)
- (ii) External Influences (i.e. economics, availability of human resources and damages)
- (iii) Operations and complexity of processes
- (iv) Volume of activities within the municipality and
- (v) The nature of the control environment

6. BENEFITS OF RISK MANAGEMENT

6.1 Dipaleseng Local Municipality implements and maintains effective, efficient and transparent systems of risk management and internal control. The risk management will assist the Municipality to achieve, among other things, the following outcomes needed to underpin and enhance performance:

- (i) More sustainable and reliable delivery of services;
- (ii) informed decisions underpinned by appropriate rigour and analysis;
- (iii) Innovation;
- (iv) reduced waste;
- (v) Prevention of fraud and corruption;
- (vi) Better value for money through more efficient use of resources; and
- (vii) Better outputs and outcomes through improved project and programme management.
- (viii) Provides certainty in achieving the Council's goals and objectives

7. CRITICAL SUCCESS FACTORS FOR EFFECTIVE RISK MANAGEMENT

- (i) Management Support
- (ii) Risk Management Culture
- (iii) Dedicated Resources
- (iv) Link to Objectives/Strategic Plan
- (v) Monitoring and Enforcement

8. RISK MANAGEMENT POLICY STATEMENT

8.1 Dipaleseng Local Municipality is committed 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.

8.2 Risk management is recognised as an integral part of responsible management and the Council therefore adopts a comprehensive approach to the management of risk. It is expected

that all departments/units, operations and processes will be subject to the risk management strategy. It is the intention that these department/units will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably acceptable. Every employee has a part to play in this important endeavor.

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

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

8.5 Dipaleseng Local Municipality subscribe to the fundamental principles that all resources will be applied economically to ensure:

- (i) The highest standards of service delivery;
- (ii) A management system containing the appropriate elements aimed at minimizing risks and costs in the interest of all stakeholders;
- (iii) Education and training of all our staff to ensure continuous improvement in knowledge, skills and capabilities which facilitate consistent conformance to the stakeholders expectations; and
- (iv) Maintaining an environment, which promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction

9. RISK MANAGEMENT APPROACH

9.1 An entity-wide approach to risk management is adopted by Dipaleseng Local Municipality, which means that every key risk in each part of the departments/units of the Council will be included in a structured and systematic process of risk management.

9.2 It is expected that the risk management processes will become embedded into the Council's systems and processes, so that before events occur that might affect the Council achieving the objectives in the IDP, the risks shall be identified and managed on a consistent, proactive way.

9.3 Similarly, after events occurred, Dipaleseng Local Municipality will use systematic processes to learn from failures and put the necessary control in place to prevent the recurrence of such incidents.

In this way Dipaleseng Local Municipality will drive towards operational excellence and organizational learning and growth.

9.4 All risk management efforts will be focused on supporting the Council's objectives. Equally, they must ensure compliance with relevant legislation, and fulfill the expectations of employees, communities and other stakeholders in terms of service delivery.

10. ROLES AND RESPONSIBILITIES

10.1 Every employee of Dipaleseng Local Municipality is responsible for executing risk management processes and adhering to risk management procedures laid down by the Municipalities management in their areas of responsibilities.

10.2 Risk Management Oversight

10.2.1 Executive Authority

The Executive Authority (Mayoral Committee) takes an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect the Municipality against significant risks.

10.2.2 Risk Management Committee

The Risk Management Committee is appointed by the Accounting Officer/Authority to assist him/her to discharge his/her responsibilities for risk management. The Committee's role is to review the risk management progress and maturity of the Municipality, the effectiveness of risk management activities, the key risks facing the Municipality, and the responses to address these key risks. The Risk Management Committee shall:

- (i) Review the risk management policy and strategy and recommend for approval by the Council;
- (ii) Review the risk appetite and tolerance and recommend for approval by the Council;
- (iii) Review the institution's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- (iv) Evaluate the effectiveness of mitigating strategies to address the material risks of the Council;
- (v) Report to the Council any material changes to the risk profile of the Municipality;

- (vi) Review the fraud prevention policy and recommend for approval by the Council;
- (vii) Evaluate the effectiveness of the implementation of the fraud prevention policy;
- (viii) 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;
- (ix) Develop goals, objectives and key performance indicators for the Committee for approval by the Council;
- (x) Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;
- (xi) Set out the nature, role, responsibility and authority of the risk management function within the Municipality for approval by the Council, and oversee the performance of the risk management function;
- (xii) Provide proper and timely reports to the Council on the state of risk management, together with aspects requiring improvement accompanied by the Committee's recommendations to address such issues.

10.2.3 Audit Committee

The Audit Committee is an independent committee responsible for oversight of the Council's control, process, governance and risk management. The responsibilities of the Audit Committee with regard to risk management are formally defined in its charter. The Audit Committee provides an independent and objective view of the Municipality's risk management effectiveness.

- (i) Setting strategic directions with regards to the establishment of Risk Management Strategy.
- (ii) Evaluation of whether management is setting the importance of risk management culture within the municipality
- (iii) Monitor whether the risk management systems are effective and integrated with IDP objectives

10.3 Risk Management Implementers

10.3.1 Accounting Officer

The Accounting Officer is accountable for the Municipality's overall governance of risk. By setting the tone at the top, the Accounting Officer promotes accountability, integrity and other factors that will create a positive control environment.

10.3.2 Management

10.3.2.1 Management is the custodian of the Risk Management Strategy, and coordinator of risk management activities throughout the Municipality.

10.3.2.2 Management shall:

- (i) Take ownership of risks within their functional areas and all responsibilities in managing such risks;
- (ii) Cascade risk management into their functional responsibility;
- (iii) Maintain the risks within the acceptable levels;
- (iv) Continuously provide reports on the functional risk management as requested; and
- (v) Manage all unacceptable risks and devote efficient resources to treat such risks

10.3.3 Other Officials

Other officials shall:

- (i) Integrate risk management into their day-to-day activities;
- (ii) Ensure that their delegated risk management responsibilities are executed and continuously report on progress against planned mitigation
- (iii) Participate in risk identification and risk assessment within their respective units;
- (iv) Implement the risk responses to address the identified risks;
- (v) Provide information and cooperation with other role players;
- (vi) Maintain and monitor the functioning of the internal controls

10.3.4 Risk Officer

10.3.4.1 The Risk Officer is the coordinator of risk management activities throughout the Municipality. The primary responsibility of the Risk Officer is to bring to bear his/her specialist expertise to assist the Municipality to embed risk management and leverage its benefits to enhance performance.

10.3.4.2 Risk Officer Shall:

- (i) Develop the risk management policy, risk management strategy, risk management implementation plan, fraud prevention plan and risk appetite for approval by the Council

- (ii) Communicate all risk management strategies and policies to all staff at the municipality
- (iii) Coordinate and facilitate the risk identification and risk assessment within the municipality
- (iv) Continuously driving the risk management process towards best practice
- (v) Compile and maintain the risk register and reports on risk management activities
- (vi) Conduct regular risk monitoring
- (vii) Review and analyze all risk management reports

10.3.5. Risk Champions

10.3.5.1 The Risk Champion's responsibility involves intervening in instances where the risk management efforts are being hampered by the lack of co-operation by Management and other officials and the lack of departmental skills and expertise.

10.3.5.2 The Risk Champions will not assume the role of the risk owner but they will play coordinating roles towards risk mitigations in their respective departments.

10.4. Risk Management Assurance Providers

10.4.1 Internal Audit

The role of the Internal Auditing in risk management is to provide an independent, objective assurance on the effectiveness of the Municipality's system of risk management. Internal Auditing must evaluate the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

10.4.2 External Audit

The external auditor (Auditor-General) provides an independent opinion on the effectiveness of risk management.

11. INFORMATION AND COMMUNICATIONS

11.1 This policy shall be made available and communicated to all officials and be implemented by all officials.

12. POLICY REVIEWAL AND APPROVAL

This Policy shall be reviewed annually to reflect the current stance on risk management and be approved by the council.

RECOMMENDED BY THE RISK MANAGEMENT COMMITTEE:



Chairperson: Risk Committee

31/07/2018

Date

NOTED BY:



TC Mametja
Acting Municipal Manager

31/07/2018

Date

APPROVED BY COUNCIL ON THE 31 JULY 2018

Council Resolution Number: **C119/07/18**