

# **TSWELOPELE MUNICIPALITY**

## **RISK MANAGEMENT POLICY**

### **1. Statutory Framework**

- 1.1 In terms of section 62 of the Local Government: Municipal Finance Management Act 2003 [Act 56 of 2006] [MFMA] the Municipal Manager is responsible for managing the Municipality's financial administration. For this purpose the Municipal Manager must take all reasonable steps to ensure, amongst others, that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.
- 1.2 Section 120 of the MFMA empowers the Municipality to enter into a public-private partnership agreement, if it can demonstrate that the agreement will, amongst other things, transfer appropriate technical, operational and financial risk to the private party.
- 1.3 Section 165 of the MFMA requires that the Municipality must have an internal audit unit. The internal audit unit must prepare a risk-based audit plan and an internal audit program for each financial year. It must also advise the Municipal Manager and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices and risk and risk management.
- 1.4 The Municipality must have an audit committee. The audit committee is an independent advisory body which must, amongst other things, advise the Council, the Municipality's political officer-bearers, the Municipal Manager and the management staff on matters relating to internal financial control, internal audit and risk management.
- 1.5 Regulation 9 of the Municipal Supply Chain Management Regulations [Notice 868 of 30 May 2005] prescribes that the Municipality's supply chain management must describe in sufficient detail effective systems for risk management. Such a risk management system must, in terms of regulation 41, provide for the identification, consideration and avoidance of potential risks in the supply chain management system. The risk management provisions of the supply chain management policy must include -  
  
[a] the identification of risks on a case-by-case basis;

- [b] the allocation of risks to the party best suited to manage such risks;
- [c] acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;
- [d] the management of risks in a pro-active manner and the provision of adequate cover for residual risks; and
- [e] the assignment of relative risks to the contracting parties through clear and unambiguous contract documentation.

## **2. Policy objectives**

The objectives of this policy are -

- [a] to provide a framework for the effective identification, measurement, avoidance / management and reporting, of the Municipality's risks;
- [b] to define and assign risk management roles and responsibilities within the Municipality; and
- [c] to define a reporting framework which ensures regular communication of risk management information to the Council, portfolio committees, the audit committee and senior management and officials engaged in risk management activities.

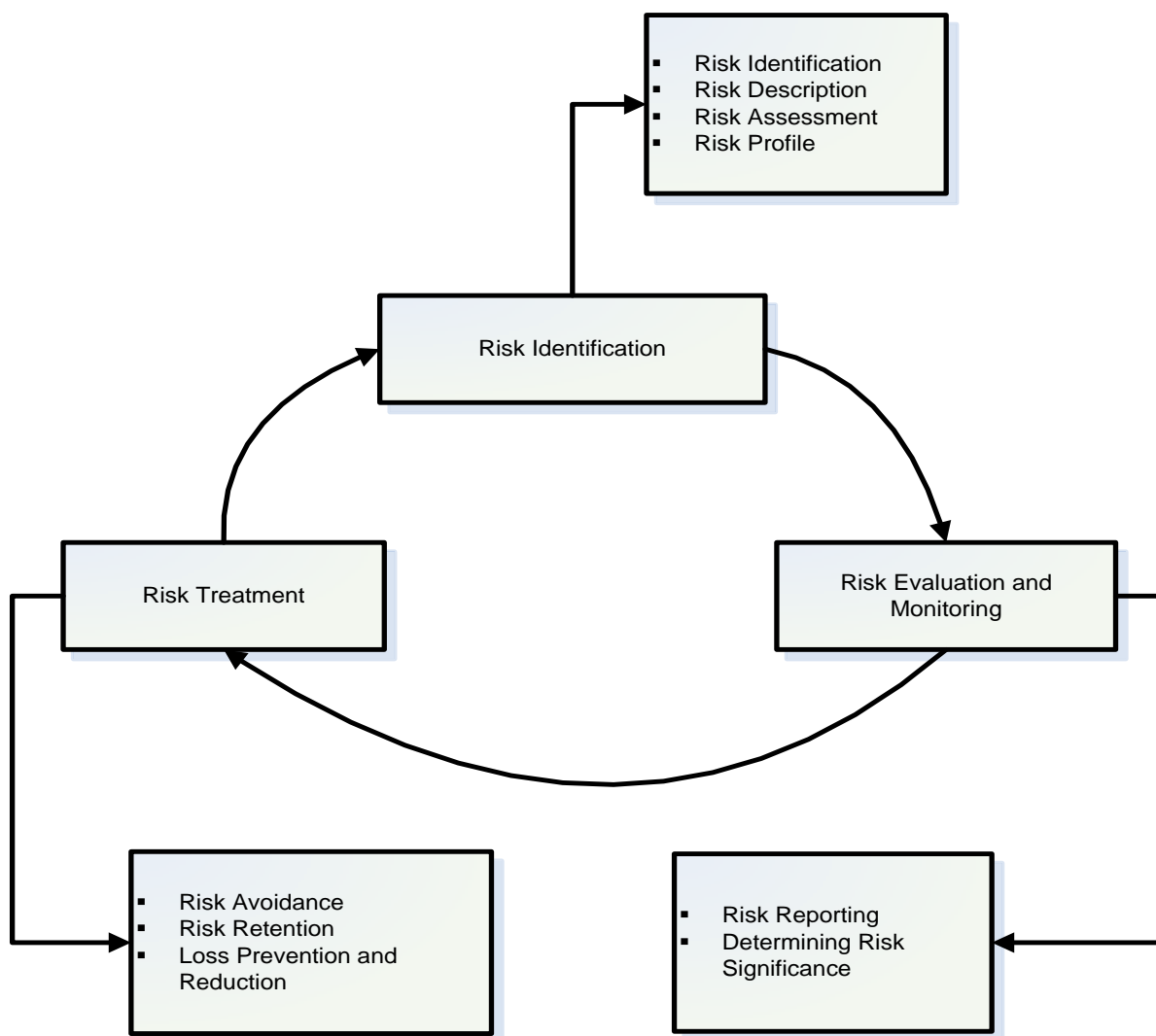
## **3. Introduction**

Risks are uncertain future events which could influence the achievement of the Municipality's objectives. Risk is the chance of an event occurring which will have an impact [usually a threat rather than an opportunity] upon the achievement of the municipality's business objectives.

Risk management is the process whereby the Municipal Manager, the Chief Financial Officer and other key members of the senior management proactively, purposefully and regularly identify and define current as well as emerging business, financial and operational risks and either simultaneously or with due expedition identify appropriate and cost effective methods of obviating and managing these risks within the Municipality. Stated differently risk management is the identification and evaluation of actual and potential risk areas as they

pertain to the Municipality as an entity, followed by a process of either termination, transfer, acceptance [tolerance] or mitigation of those risks through a system of appropriate internal controls and other measures. The risk management process entails the planning, arranging and controlling of activities and resources to minimise the impacts of all risks to levels that can be tolerated by stakeholders whom the Council has identified as relevant to the Municipality.

#### 4. Risk management cycle



**Figure 1: Schematic presentation of the risk management cycle**

#### 5. Institutional arrangements for risk management

##### 5.1 Council

The Council's role in risk management is to -

[a] determine the Municipality's risk management policy and strategy;

- [b] champion risk management at strategic and operational levels;
- [c] facilitate the building of a risk aware culture within the Municipality, including appropriate education and training;
- [d] develop risk response processes including contingency and business continuity programmes;
- [e] assign roles with regard to risk management to different stakeholders; and
- [f] preparing reports for the Municipality's stakeholders.

## 5.2 Mayor

The role of the Mayor is to: -

- [a] advise the Municipality with regard to the roles of the Council set out in paragraph 5.1;
- [b] review the risk assessment and risk treatment resolutions of the Municipal Manager.

## 5.3 Municipal Manager

The Municipal Manager's role in risk management is to: -

- [a] build a risk culture within the administration;
- [b] ensure that the Municipality's risk management policy and strategy are diligently executed;
- [c] ensure that the risks of every activity, project and programme undertaken and / or initiated by the Municipality are identified, assessed, assigned to the party best able to deal with the risk and, where the Municipality will accept the risk, ensure that appropriate risk treatment measures are implemented to minimise and / or mitigate the risk;

- [d] ensure that an appropriate risk aware culture exists in the Municipality and that staff members have appropriate levels of knowledge of risk management;
- [e] regularly report regarding the risks facing the municipality and related risk management issues to the Mayor and the Council;
- [f] ensure that the Internal Auditor's auditing activities are focused on risks;
- [g] actively seek the advice and assistance of the audit committee regarding the mitigation and minimisation of risk;
- [h] determine and implement appropriate risk treatment measures to mitigate the effect of risk and to minimise the Municipality's exposure to risk in the most effective and efficient manner;
- [i] to perform such other duties in respect of risk management as may be appropriate.

#### 5.4 Chief Financial Officer

The Chief Financial Officer's role in risk management is to: -

- [a] assist the Municipal Manager in the discharge of his / her duties with regard to risk management; and
- [b] perform such functions, discharge such duties and exercise such powers in respect of risk management as may be delegated or sub-delegated to her / him and as may be assigned to her / him in terms of this policy.

#### 5.5 Departmental Heads

The role of departmental heads in risk management is to: -

- [a] assist the Municipal Manager in the discharge of his / her duties with regard to risk management.
- [b] to identify and assess the risks of every activity, project and programme undertaken and / or initiated by her / his department and advise the Municipal

Manager with regard to the assignment of such risks to the party best able to deal therewith and, where it is proposed that the Municipality accept the risk, advise the Municipal Manager with regard to the risk treatment measures that should be implemented to minimise and / or mitigate the risk;

- [c] perform such functions, discharge such duties and exercise such powers in respect of risk management as may be delegated or sub-delegated to her / him and as may be assigned to her / him in terms of this policy;
- [d] ensure that personnel assigned to her / his department are aware of the risks inherent in and related to their respective activities and are encouraged to mitigate the effect of and minimise the likelihood of such risks occurring; and
- [e] diligently implement the risk management strategies of the Municipality.

#### 5.6 Internal audit

The Internal Auditor's role in risk management includes: -

- [a] focusing on the significant risks, as identified by management, and auditing the risk management processes across the Municipality;
- [b] providing assurance on the management of risk;
- [c] providing active support and involvement in the risk management process;
- [d] facilitating risk identification / assessment and educating line staff in risk management in internal control and the recommendations to improve them;
- [e] to evaluate the efficiency and effectiveness of the internal audit function in respect of risk management;
- [f] to assess risk management matters of significant importance reported by the internal auditor; and
- [g] to assess and confirm the policies, strategy and procedures for identifying areas of risk and the measures implemented to ensure adequate control of and security at such areas.

## **6. Risk analysis**

### **6.1 Risk identification**

6.1.1 All activities undertaken by the Municipality, both existing and emerging, must be assessed in order to identify any material current or emerging risks which: -

- [a] threaten the achievement of the Municipality's objectives; or
- [b] may cause material loss or damage to the Municipality's resources; or
- [c] may have potentially disruptive influence on the Municipality's business continuity; or
- [d] may impair the Municipality's reputation among its stakeholders.

6.1.2 For this purpose the Municipal Manager and departmental heads must utilise the risk identification and assessment matrix annexed to this policy.

### **6.2 Risk description**

By completing the risk identification and assessment matrix annexed to this policy the Municipality will have the benefit of a clear and comprehensive risk description. Clear and comprehensive risk description is essential to ensure that the Municipality takes appropriate treatment action.

### **6.3 Risk assessment / estimation**

6.3.1 In this policy, risk assessment refers to the estimation: -

- [a] of the probability of a risk event happening, which will indicate each event's estimated frequency; and
- [b] of the likely impact the occurrence of a specific risk event may have on the Municipality's operations and / or reputation.

6.3.2 The Municipality utilises a five point scale to estimate the impact of risk events, as follows:

- [a] Catastrophic: The Municipality or any of its significant operations will not be able to function for a period, fatalities or serious injury occurred and the Municipality's reputation has suffered major damage for an extended period
- [b] Major: The event had a significant impact on the Municipality's ability to achieve one or more strategic objectives, fatalities or serious injury occurred and the Municipality's reputation has been severely damaged in the medium term
- [c] Moderate: Disruption of normal activities, with limited effect on the ability to achieve strategic objectives with slight damage to the Municipality's reputation
- [d] Minor: No material impact on the achievement of the Municipality's strategic objectives, although its reputation has been damaged for a limited period [say less than 3 years]
- [e] Low: Insignificant impact on the Municipality's ability to achieve its strategic objectives, injury may have occurred and the Municipality's reputation has been damaged for a short period

6.3.3 The Municipality utilises a five point scale to estimate the likelihood of a risk event happening, as follows:

- [a] Certain: More than likely the event will take place more than once during a year
- [b] Likely: The risk will probably occur once during the next 12 months
- [c] Moderate: The risk may happen once during the next 2 to 5 years
- [d] Unlikely: The risk event may happen during the next 5 to 15 years
- [e] Rare: The risk may happen once in the next 15 to 20 years

#### 6.4 Risk Profile



The completed risk identification and assessment matrix will contain the Municipality's risk profile, which will be used to -

[a] determine the Municipality's priorities for risk treatment; and

[b] determine appropriate risk treatment actions to be taken.

## **7. Risk evaluation**

### **7.1 Determining risk significance [risk evaluation]**

When the risk analysis process has been completed, it is necessary to compare the estimated risks against appropriate risk criteria established by the Municipal Manager after consultation with the financial services portfolio committee and the audit committee.

### **7.2 Risk reporting**

Different levels within Municipality need different information from the risk management process.

7.2.1 The Council, other political structures and the Municipality's political office-bearers should -

[a] know about the most significant risk facing the Municipality;

[b] ensure appropriate levels of awareness throughout the Municipality;

[c] know how the Municipality will manage a crisis;

[d] know the importance of stakeholder confidence in the Municipality; and

[e] be assured that the risk management process is working effectively.

7.2.2 The Municipal Manager, Chief Financial Officer and departmental heads should -

[a] be aware of risks which fall into their area of responsibility, the possible impacts these may have on other areas and the consequences other areas may have on them;

- [b] have performance indicators which allow them to monitor the key business and financial activities, progress towards objectives and identify developments which require intervention [e.g forecasts and budgets];
- [c] have systems which communicate variances in budgets and forecasts at appropriate frequency to allow action to be taken; and
- [d] report systematically and promptly to senior management any perceived new risks or failures of existing control measures.

#### 7.2.3 Officials of the Municipality should -

- [a] understand their accountability for individual risks;
- [b] understand how they can enable continuous improvement of risk management response;
- [c] understand that risk management and risk awareness are a key part of the Municipality's culture; and
- [d] report systematically and promptly to senior management any perceived new risks or failures of existing control measures.

## **8. Risk treatment**

### 8.1 Risk avoidance

Preventative maintenance and timely repair of assets, a high qualitative standard of workmanship and diligent compliance with the law are some of the strategies that could be implemented to avoid risk. However, the Municipality acknowledges that in some cases the risk event must first occur before any practicable steps can be taken to avoid the risk, e.g prohibiting municipal vehicles to be driven in dense mist may avoid the occurrence of accidents involving such vehicles or evacuation of residences and business premises built below the 1:50 flood line when it is expected that a river may flood its banks.

## 8.2 Risk retention

It may be determined that it is more practical to retain a risk even though other methods of handling the risk are available. For example, the Municipality retains the risk of loss to fences, signs, parking meters, gates and light poles because of the difficulty of enumerating and evaluating all of these types of assets. When losses occur, the cost of replacement and repairs is absorbed by the repairs and maintenance budget, except for those situations when the Municipality can collect the loss or damage from a negligent third party.

## 8.3 Loss prevention and reduction

When risk cannot be avoided, the effect of loss can often be minimised in terms of frequency and severity, e.g restricting access to Municipality's offices after hours and the use of security devices on all computers, to reduce the risk of theft. In the most severe cases the only effective manner of preventing exposure to risk may, where the possibility of a catastrophic risk event happening with certainty, is to cease undertaking the specific activity.

## 8.4 Risk transfer

In some cases risk can be transferred to others, usually by contract. The most common method of risk transfer is to purchase of insurance since the policy actually shifts the financial risk of loss, contractually, from the Municipality to the insurance company.

### 8.4.1 Insurance

- [a] The Chief Financial Officer must, in respect of all those instances that the Municipal Manager identified risk transfer by means of insurance as the most effect and efficient risk management policy, take out adequate insurance cover and must manage the Municipality's insurance reserve fund to cover such risks, as the Municipal Manager may determine.
- [b] A departmental head must, at the request of the Chief Financial Officer by written notice declare the assets held, allocated to or used by her / his department, the risks against which they should be insured and such other information as may be considered necessary.

- [c] A departmental head must at the request of the Chief Financial Officer notify her / him without delay of all property acquired, leased or rented and which must be insured against fire, accident or loss of any nature and of any changes in structure, heating or occupation of any buildings or items which are insured.
- [d] A departmental head must notify the Chief Financial Officer of the amounts in respect of which new insurance cover must be taken out, or of any changes in existing insurance, having regard for the replacement costs of assets.
- [e] A departmental head must notify the Chief Financial Officer immediately after any occurrence of fire or damage to, or loss of, any asset of the Municipality. A departmental head must thereafter complete the appropriate claim form and supply an estimate of the costs to repair such damage or loss.
- [f] A departmental head must in the same manner inform the Chief Financial Officer on any injuries to or damage sustained by any employee or a third party that could lead to a claim against the Municipality.
- [g] A departmental head must notify the Chief Financial Officer of any assets that, in her / his opinion should be insured against political insurgence and malicious damage or any other risk and the amounts for which such assets should be insured. The Chief Financial Officer must report such requests to the Municipal Manager.
- [h] The Chief Financial Officer must -
  - [i] keep record of all insurance policies of the Municipality;
  - [ii] ensure payment of all premiums with regard to such insurance; and
  - [iii] ensure that all claims arising from such policies are completed and submitted.