



REVIEWED RISK MANAGEMENT POLICY

2017/2018

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1. INTRODUCTION

The Accounting Officer has committed TMDM 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.

- ✓ Section 62 (1) (C) (i): The Accounting Officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management and internal controls.

2. RISK AND RISK MANAGEMENT

Risk refers to an unwanted outcome, actual or potential, to the municipality's service delivery and other performance objectives, caused by the presence of risk factor(s). Some risk factor(s) also present upside potential, which Management must be aware of and be prepared to exploit. Such opportunities are encompassed in this definition of risk.

Risk management is a systematic and formalised process instituted by the municipality such as policies, procedures, and practices instituted to identify, assess, manage and monitor risks.

Enterprise Risk Management is a continuous, proactive and systematic process, effected by the Municipality's executive authority, accounting officer, 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 appetite, to provide reasonable assurance regarding the achievement of Municipal objectives.

2.1 Benefits of Risk Management

Thabo Mofutsanyana District 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:

- more sustainable and reliable delivery of services;
- informed decisions underpinned by appropriate rigour and analysis;

- innovation;
 - reduced waste;
 - prevention of fraud and corruption;
 - better value for money through more efficient use of resources; and
 - better outputs and outcomes through improved project and programme management
- a rigorous basis for strategic management through consideration of key elements of risk
 - enhanced Risk Management Plan decisions through quantification of risk tolerances
 - identification and management of risks affecting different departments and / or different processes
 - minimising operational surprises, costly and time-consuming litigation and unexpected losses
 - rationalisation of capital and financial resources
 - greater transparency in decision making and ongoing management processes
 - enhanced accountability and corporate governance processes

3. PURPOSE OF THE POLICY

The purpose of this Policy is to articulate the TMDM's risk management philosophy. The Municipality recognizes that risk management is a systematic and formalized process to identify, assess, manage and monitor risks and therefore adopts a comprehensive approach to the management of risk.

3.1 Risk Management Philosophy and Policy Statement

The Municipality does not operate in a risk-free environment, and the risk management process does not create such an environment. Effective risk management assists the Municipality to achieve its performance and service delivery targets as set out in the Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP), and to reduce the potential loss of resources. This results in effective responsibility and accountability structures, the improvement of the format used to report

performance, and with the compliance with laws and regulations, thus avoiding damage to its reputation and other consequences.

The risk management process should allow the Municipality to identify and analyse the physical risks associated with our decisions, so that all employees within the Municipality increase their knowledge and understanding of the Municipal exposure to the risks.

The quality and integrity of the Municipality's risk management performance should be dependent on all aspects of the Municipal businesses:

- Ensuring that appropriate focus is given to the identification, evaluation, treatment, monitoring and reporting of risks
- Ensuring that managing risk is an integral part of planning and management processes
- Informing, training and motivating all staff to enable them to implement effective risk management practice
- Maintaining a cost / benefit focus when developing risk mitigating strategies
- Identifying all stakeholders and interested parties as part of the overall risk management process and consulting and communicating appropriately with them
- Applying best operating practices consistently.

Effective risk management helps management achieve objectives. However, the Municipality's risk management, no matter how well designed and operated, does not ensure the Municipality's success. The achievement of objectives is affected by limitations inherent in all management processes. Shifts in government policy, programs or economic conditions can be beyond management's control. Decision-making is based on judgments and can be faulty, resulting in breakdowns because of such human failures as simple error or mistake. Municipality risk management cannot change an inherently poor manager into a good one. Additionally, controls can be circumvented by the collusion of two or more employees, and management has the ability to override the risk management process, including risk management strategies and controls.

The design of risk management must reflect the reality of resource constraints, and the risk management benefits must be considered relative to their costs. Thus, while risk management can help management achieve its objectives, it is not a panacea.

The following key risks can be associated with ineffective Risk Management processes:

- Breakdowns in internal controls could prevent the Municipality from achieving its objectives
- Risk management fails to be incorporated in the culture and will remain an, 'add on,' with minimal impact
- Reactive responses to potential risks, rather than proactive
- The Municipality may have inadequate plans to deal with adverse events which could have a significant impact on its operations
- Inappropriate controls may be used which adversely affect the responsiveness and flexibility of the organisation
- Changing / new risks are not adequately considered and managed
- Internal control practices become outdated with limited account taken of best practice developments.

People, information and property are the most important assets of the Municipality and their protection and security is the means of achieving our objectives.

It is the personal responsibility of each staff and management member, whatever his / her position, to identify him / herself with the organisation's declared priority of safety of life and preservation of assets and revenues, to recognise risks, actual or anticipated, and to take immediate action to avoid, eliminate and transfer or reduce them.

The participation of all staff and management is essential and all soundly comprehended action to achieve these objectives has the full support of the Accounting Officer.

The realisation of our strategic objectives depends on us being able to take calculated risks in a way that does not jeopardize the direct interests of stakeholders. Sound management of risk will enable us to anticipate and respond to changes in our service delivery environment, as well as taking informed decisions under conditions of uncertainty.

An entity-wide approach to risk management is adopted by the Thabo Mofutsanyana District Municipality, which means that every key risk in each section of each department of the TMDM 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 risks 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.

3.2. Application

This policy applies throughout the Municipality in as far as risk management is concerned.

4. PRINCIPLES

We subscribe to the fundamental principles that all resources will be applied economically to ensure:

- The highest standards of service delivery;
- A management system containing the appropriate elements aimed at minimising risks and costs in the interest of all stakeholders;
- 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
- Maintaining an environment which promotes the right attitude and sensitivity towards internal and external stakeholder satisfaction.

5. ROLE PLAYERS

Every employee is responsible for executing risk management processes and adhering to risk management procedures laid down by the municipal management in their areas of responsibilities.

5.1 Risk Management Oversight

5.1.1 Executive Council

The Executive Council 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.

5.1.2 Audit Committee

The Audit Committee is an independent committee responsible for oversight of the Municipality's control, 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.

5.1.3 Risk Management Committee

The Risk Management Committee is appointed by the Accounting Officer to assist them to discharge their 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, risk tolerance and appetite, and the responses to address these key risks.

The Committee will submit a quarterly report to the Accounting Officer that will outline the work performed by the committee and recommendations in that specific quarter and consider responsibilities as formally defined in its charter.

The duties of the Committee shall be to:

- a) Review the risk management policy and strategy and recommend for approval by the Council;
- b) Review the risk appetite and tolerance and recommend for approval by the Accounting Officer;
- c) Review the institution's risk identification and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- d) Evaluate the effectiveness of mitigating strategies to address the material risks of the Institution;
- e) Report to the Accounting Officer any material changes to the risk profile of the Institution;
- f) Review the fraud prevention policy and recommend for approval by the Council;
- g) Evaluate the effectiveness of the implementation of the fraud risk management plan and establish application of the anti-fraud management methods and standards throughout the Municipality;
- h) Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate actions are instituted to address the identified weaknesses;
- i) Develop goals, objectives and key performance indicators for the Committee for approval by the Accounting Officer;
- j) Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;

- k) Set out the nature, role, responsibility and authority of the risk management function within the Institution for approval by the Accounting Officer, and oversee the performance of the risk management function;
- l) 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.

5.2 Risk Management Implementers

5.2.1 Accounting Officer

The Accounting Officer is the ultimate Chief Risk Officer of the Municipality and is accountable for the Municipality's overall governance of risk.

The Accounting Officer shall be responsible for the following:

- a) Setting the tone at the top by supporting Enterprise Risk Management and allocating resources towards establishing the necessary structures and reporting lines within the institution to support Enterprise Risk Management(ERM),
- b) Place the key risks at the forefront of the management agenda and devote attention to overseeing their effective management,
- c) Approves the institution's risk appetite and risk tolerance,
- d) Hold management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities,

- e) Leverage the Audit Committee, Internal Audit, Risk Management Committee and other appropriate structures for assurance on the effectiveness of risk management,
- f) Provide all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored,
- g) Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

5.2.2 Management

Management is responsible for executing their responsibilities outlined in the risk management strategy and for integrating risk management into the operational routines.

- a) Integrating risk management into planning, monitoring and reporting processes, and the daily management of programs and activities,
- b) Creating a culture where risk management is encouraged, practiced, rewarded and risk management infrastructure is provided.
- c) Aligns the functional and institutional risk management methodologies and processes,
- d) Acknowledges the “ownership” of risks within their functional areas and all responsibilities associated with managing such risks;
- e) Assigning a manager to every key risk for appropriate mitigating action and to determine an action date;
- f) Cascades risk management into their functional responsibilities;

- g) Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development;
- h) Holds officials accountable for their specific risk management responsibilities;
- i) Maintains the functional risk profile within the institution's risk tolerance and appetite;
- j) Provides reports on the functional risk management consistent with the institution's reporting protocols (including appearing before committees);
- k) Aligns the functional and institutional risk management methodologies and processes;
- l) Implements the directives of the Accounting Officer concerning risk management;
- m) Maintains a harmonious working relationship with the CRO and supports the CRO in matters concerning the functions risk management;
- n) Maintains a harmonious working relationship with the Risk Champion and supports the Risk Champion in matters concerning the functions risk management;
- o) Keeps key functional risks at the forefront of the management agenda and devote personal attention in overseeing the management of these risks.
- p) Providing risk registers and risk management reports to the CRO pertaining to risk and controls;

5.2.3 Other Officials

Other officials are responsible for integrating risk management into their day-to-day activities. They must ensure that their delegated risk management responsibilities are executed and continuously report on progress.

Each official will be responsible for:

- a) Familiarity with the overall enterprise risk management vision, risk management strategy, fraud risk management policy and risk management policy;
- b) Acting in terms of the spirit and letter of the above
- c) Acting within the risk appetite and tolerance levels set by the business unit;
- d) Adhering to the code of conduct for the institution;
- e) Maintaining the functioning of the control environment, information and communication as well as the monitoring systems within their delegated responsibility;
- f) Providing information and cooperation with other role players;
- g) Participation in risk identification and risk assessment within their business unit;
- h) Implementation of risk responses to address the identified risks

5.3 Risk Management Support

5.3.1 Chief Risk Officer

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

The Chief Risk Officer will be responsible for:

- a) Develop risk management implementation plan of the Municipality,
- b) Works with senior management to develop the overall enterprise risk management vision, strategy, policy, as well as risk appetite and tolerance levels for approval by the Accounting Officer,
- c) Communicates the risk management policy, strategy and implementation plan to all stakeholders in the institution,
- d) Continuously driving the risk management process towards best practice,
- e) Developing a common risk_assessment methodology that is aligned with the institution's objectives at strategic, tactical and operational levels for approval by the Accounting Officer.
- f) Coordinating risk assessments within the Municipality / directorate / sub-directorate as outlined in the policy,
- g) Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, Municipality's restructuring and similar events, and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously.
- h) Assisting management in developing and implementing risk responses for each identified material risk,

- i) Participating in the development of the combined assurance plan for the institution, together with internal audit and management,
- j) Ensuring effective information systems exist to facilitate overall risk management improvement within the institution,
- k) Collates and consolidates the results of the various assessments within the institution,
- l) Analyse the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control interventions to manage these trends,
- m) Compiles the necessary reports to the Risk Management Committee,
- n) Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans, occupational health, safety and environmental policies and practices and disaster management plans,

Report administratively to Accounting Officer and functionally to Risk Management Committee.

The Risk Owners must submit monthly reports on risk management activities in their units to the Chief Risk Officer, who must analyse, consolidate and submit a quarterly report to the Risk Management Committee and Internal Audit Committee not limited to the following:

- ✓ What has been done to date to implement the control measure in different units;
- ✓ The effectiveness of the control measures in addressing/ eliminating/ managing the identified risks;

- ✓ Progress on the Risk Management Implementation Plan;
- ✓ Reasons that the target dates on the action plan could not be met;
- ✓ Any new potential risks that may arise in different units;
- ✓ To what extent a culture of risk management has been implemented within the Municipality.

5.3.2 Risk Champion

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

Risk Champions will be responsible for:

- a) Ensure that divisions are effectively implementing the Risk Management Strategy,
- b) Advise the risk owners to identify risks and report fraudulent activities within their Unit,
- c) Conduct preliminary inquiry on any alleged incident that is in conflict with the Code of Conduct for the Public Service and draft a report for the investigators,
- d) Provide support on investigations by facilitating the obtaining of information in any form [electronic, documentary, etc.] by investigators, in line with the applicable regulations,
- e) Be a point of entry for investigators and risk management officials within their respective units.

5.4 Risk Management Assurance Providers

5.4.1 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.

The role of internal audit is, but not limited, to provide assurance of the Municipality on the risk management process. These include the following:

- a) Provides assurance over the design and functioning of the control environment, information and communication systems and the monitoring systems around risk management,
- b) Provides assurance over the Municipality's risk identification and assessment processes,
- c) Utilises the results of the risk assessment to develop long term and current year internal audit plans,
- d) Provides independent assurance as to whether the risk management strategy, risk management implementation plan and fraud prevention plan have been effectively implemented within the institution.

5.4.2 External Audit

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

6. POLICY REVIEW

- ✓ This Policy shall be reviewed annually to reflect its effectiveness and the current stance on risk management.

- ✓ The amendments will be sent to the Risk Management Committee for recommendation and to the Accounting Officer for approval by Council thereof.

7. APPROVAL OF RISK MANAGEMENT POLICY

Resolution Date: 07 November 2017 (Council adjourned on 31 October and continued on 07 November 2017)