

# TOKOLOGO LOCAL MUNICIPALITY



## RISK MANAGEMENT POLICY

2018/19 FINANCIAL YEAR

B.E.

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## 1. INTRODUCTION

The Accounting Officer has committed Tokologo Local Municipality 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.

## 2. DEFINITIONS

### 2.1.1 Risk

The Institute of Internal Auditors defines risk as “...*the uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood.*”

### 2.1.2 Enterprise Risk Management

With reference to the highly accepted COSO Framework (The Committee of Sponsoring Organisations of the Treadway Commission):

*“Enterprise risk management is a continuous, proactive and systematic process, effected by the Board of directors, Executive management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity’s objectives.”*

The definition reflects certain fundamental concepts. Enterprise Risk Management should be:

- A process, ongoing and flowing through Tokologo Local Municipality
- Effected by people at every level of Tokologo Local Municipality
- Applied in Strategy setting
- Applied across the Tokologo Local Municipality, at every level and unit, and includes taking a group level portfolio view of risk
- Designed to identify potential events that, if they occur, will affect Tokologo Local Municipality and to manage risk within Tokologo Local Municipality’s risk appetite
- Able to provide reasonable assurance to Tokologo Local Municipality’s management and the Audit and Risk Committee
- Geared to achieve objectives of Tokologo Local Municipality.

### **2.1.3 Other definitions**

#### **Accounting Officer**

The Municipal Manager of Tokologo Local Municipality

#### **Audit and Risk Committee**

An independent committee constituted to review the control, governance and risk management within the institution, established in terms of Section 166 of MFMA

#### **Risk Officer**

An Official responsible for Tokologo Local Municipality's Risk Management Unit.

#### **Executive Authority**

The Municipal Council, led by the Mayor/Speaker

#### **Framework**

The Enterprise Risk Management Framework

King code IV

COSO framework

Public Sector Risk Management Framework

Treasury regulations

#### **Inherent Risk**

The exposure arising from risk factors in the absence of deliberate management controls to mitigate such factors.

#### **Internal Audit**

An independent, objective assurance and consulting activity designed to add value and improve Tokologo Local Municipality's operations. It helps Tokologo Local Municipality to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

#### **MFMA**

Municipal Finance Management Act (No. 56 of 2003)

**Residual Risk**

The remaining risk exposure after the mitigating effects of deliberate management controls to mitigate such risk exposure.

**Risk Appetite**

The amount of residual risk exposure that Tokologo Local Municipality is willing to accept.

**Risk Champion**

A person who by virtue of his/her expertise or authority champions a particular aspect of the risk management process, who is not necessarily the risk owner.

**Risk Factor (Root Cause)**

Any threat or event which contributes to the risk materialising, or has the potential to contribute to the risk materialising.

**Risk Management Committee**

The Committee is appointed in writing by the Accounting Officer, which will be responsible for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of Tokologo Local Municipality.

**Risk Owner**

The person who is accountable for managing risks within the department (Directors).

**Risk Tolerance**

The level of risk exposure the institution is willing to bear.

### **3. LEGISLATION**

The Accounting Officer must commit the municipality 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 and Treasury Regulations 3.2.1.

The requirements on risk management for municipalities are set out in section 62(1) (a)(i) as follows:

“The accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically and that the municipality has and maintains effective, efficient and transparent system of financial and risk management and internal control.”

### **4. POLICY INTENT**

The aim of this policy is to ensure that Tokologo Local Municipality makes informed decisions with regard to the activities that it undertakes by appropriately considering both risks and opportunities.

Tokologo Local 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.

### **5. POLICY STATEMENT**

Tokologo Local Municipality is committed to the effective risk management and treatment of risk in order to achieve its objectives.

Management of risk is the responsibility of all Senior Management and employees and therefore, the Accounting Officer who is the ultimate Chief Risk Officer of the municipality.

It is important that employees become aware of the risks associated with their area of work and must manage these risks to be within tolerance level by using risk management response strategies outlined in the risk management strategy.

### **6. POLICY OBJECTIVES**

- To explain Tokologo Local Municipality approach to risk management and ensure that it has a consistent and effective approach to risk management;

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- To ensure that Tokologo Local Municipality culture and processes encourage the identification assessment and treatment of risks that may affect its ability to achieve its objectives;
- To explain key aspects of risk management;
- To clearly indicate the risk management reporting procedures;
- To hold executive, management and officials accountable for the implementation of risk management on their area of responsibility;
- To create an environment where all Tokologo Local Municipality's employees take responsibility for managing risk
- To create more risk aware organisational culture through enhanced communication and reporting of risk;
- To improve corporate governance and compliance with relevant legislation;
- The implementation of this policy will provide the Tokologo Local Municipality with a basis and a framework for:
  - more confident and rigorous decision-making and planning;
  - better identification of opportunities and threats;
  - pro-active rather than re-active management;
  - more effective allocation and use of resources;
  - improved management and reduction in loss and cost of risk;
  - improved stakeholder confidence and trust;
  - a clear understanding by all staff of their roles, responsibilities and authorities for managing risk.

## **7. BENEFITS OF THE ENTERPRISE RISK MANAGEMENT FRAMEWORK**

The benefits of Enterprise Risk Management Framework are as follows:

- **Aligning risk appetite and strategy-** Tokologo Local Municipality's management will consider their risk appetite in evaluating strategic alternatives setting related objectives, and developing mechanisms to manage related risks.
- **Pursuing business objectives through transparent identification and management of acceptable risk-** There is a direct relationship between objectives, which are what an entity strives to achieve and the enterprise risk management components, which represent what is needed to achieve the objectives.
- **Providing an ability to prioritise the risk management activity-** Risk quantification techniques assist management in prioritizing risks to ensure that resources and capital are focussed on high priority risks faced by the municipality.

- **Enhancing risk response decisions-** Enterprise Risk Management provides the basis for management to identify and select alternative risk responses (transfer the risk, tolerate, treat, or terminate).
- **Reducing operational surprises and losses-** Tokologo Local Municipality will gain enhanced capability to identify the potential events and establish responses, reducing surprises and associated costs or losses.
- **Identifying and managing multiple and cross-enterprise risks-** Tokologo Local Municipality faces a myriad of risks affecting different areas of its business activities and Enterprise Risk Management facilitates an effective response to the interrelated impacts, and an integrated responses to the multiple risks.
- **Seizing opportunities-** By considering a full range of potential events, Tokologo Local Municipality management will be in a position to identify and proactively realize opportunities.
- **Improving deployment of capital-** obtaining robust risk information allows Tokologo Local Municipality management to effectively assess overall capital needs and enhance capital allocation.
- **Ensuring compliance with laws and regulations-** Enterprise Risk Management helps to ensure effective reporting and compliance with laws and regulations, and helps to avoid damage to Tokologo Local Municipality's reputation and associated consequences.
- **Increases probability of achieving objectives:** Enterprise Risk Management assists management in achieving Tokologo Local Municipality's objectives and prevent loss of resources. Controls and risk interventions will be chosen on the basis that they increase the likelihood that Tokologo Local Municipality will fulfil its undertakings to stakeholders.

## 8. PRINCIPLES

- Risk management is recognised as an integral part of responsible management and therefore, the municipality adopts a comprehensive approach to the management of risk. The features of this process are outlined in the municipal's Risk Management Strategy. It is expected that all departments' and divisions' operations and processes will be subject to the risk management strategy. It is the intention that these sections will work together in a consistent and integrated manner, with the overall objective of reducing risk, as far as reasonably practicable.

- Risk management must be embedded in the strategic planning of the municipality.
- As risk management is necessary for planning and decision making. Risk management must be embedded in all the decision making processes. Before decision is taken, the risks it poses must be identified.
- The municipal risk tolerance level must be determined by top management and is outlined in the Risk Management Strategy.
- All personnel must be willing and able to take calculated risks to achieve their own objectives and to benefit the municipality. The associated risks of proposed actions and decisions must be properly identified, evaluated and managed to ensure that exposures are acceptable.
- The municipality will conduct a risk assessment on an annual basis with a review or re-assessment of the risks conducted on quarterly basis to ensure maximum mitigation thereof.
- Risks will be owned and managed by the sections where the risk resides.
- This policy is subject to an annual review in line with risk management framework.

## **9. ACCESS TO INFORMATION**

The Risk officer (RO) and staff of Risk Management Unit are authorized to:

- Have unrestricted access to all municipal functions, records, property and personnel.
- Have access to the Accounting Officer, the Chairperson of the Risk Management Committee and management (the Risk Officer will attend management meetings per invitation).
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish Risk Management objectives.
- Obtain the necessary assistance of personnel in units of the Municipality where risk assessments are performed, as well as other specialized services from within or outside the Municipality.
- Risk Management must be a standing item on the management meetings.

## **10. DECLARATION OF INTEREST**

All members of Risk Management Committee will sign a declaration of interest in every sitting (meeting).

## **11. ROLE PLAYERS**

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

### **11.1 RISK MANAGEMENT OVERSIGHT**

#### **i. COUNCIL**

The 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.

#### **ii. AUDIT COMMITTEE**

The Audit Committee is an independent committee responsible for oversight of Tokologo Local 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 Tokologo Local Municipality's risk management effectiveness.

#### **iii. 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, and the responses to address these key risks. The responsibilities of the Risk Management Committee are formally defined in its charter. The Risk Management Committee will submit a quarterly report to the Accounting Officer that will outline the work performed by the committee in that specific quarter and must consider the responsibilities outlined in the risk management committee charter.

### **11.2. RISK MANAGEMENT IMPLEMENTERS**

#### **i. ACCOUNTING OFFICER**

The Accounting Officer is the ultimate Risk Owner of the municipality and 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 controlled environment.

## **ii. MANAGEMENT**

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

## **iii. 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 progress.

### **11.3. RISK MANAGEMENT SUPPORT AND REPORTING PROCESS**

#### **i. REPORTING BY THE RISK OFFICER**

The Risk officer is the custodian of the Risk Management Strategy, and coordinator of risk management activities throughout the municipality. The primary responsibility of the Risk officer is to bring to bear his/her specialised expertise to assist the municipality to embed risk management and leverage its benefits to enhance performance. The Risk Owners must submit monthly reports on risk management activities in their units to the Risk officer. The Risk officer will submit a quarterly report to the Risk Management Committee which will submit to Accounting Officer. Risk Committee Chairperson will then submit the report to the Audit Committee, on risk management activities not limited to the following:

- a) What has been done to date to implement the control measures in different units,
- b) The effectiveness of the control measure in addressing / eliminating / managing the identified risks.
- c) Any new potential risks that may arise in different units.
- d) To what extent a culture of risk management has been implemented in the Municipality.

#### **ii. 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 municipality's skills and expertise.

## **11.4. RISK MANAGEMENT ASSURANCE PROVIDERS**

### **i. 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.

### **ii. EXTERNAL AUDIT**

The external auditor (Auditor-General) provides an independent opinion on the effectiveness of risk management. An entity-wide approach to risk management will be adopted by the Institution, which means that every key risk in each part of the Institution 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 Institution'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 fulfil the expectations of employees, communities and other stakeholders in terms of corporate governance.

## **12. MONITORING & EVALUATION**

The Risk Officer must monitor the effectiveness of risk mitigating strategies on quarterly basis; The Risk Management Committee must monitor implementation and effectiveness of the risk management function quarterly. The internal audit unit must provide independent assurance on the effectiveness of risk management activities in line with their internal audit coverage plan. The Risk Management Committee must evaluate, at least annually, its performance in line with the responsibilities outlined in the approved Risk Management Charter. This evaluation is conducted by Provincial Treasury through Key Performance Indicators.

## **13. POLICY ADMINISTRATION**

This Policy shall be reviewed annually to reflect the current stance on risk management. In order to comply with any changes that might have happen whenever there are changes adopted by National or Provincial Treasury or whatever relevant stakeholder in order to comply, furthermore, changes may be made by Council itself if it deems it necessary to do so.

The amendments will be sent to the Risk Management Committee for recommendations and to the Accounting Officer and Council for approval.

Submitted By:

  
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Risk Officer

Date: 24/01/19.....

Recommended	Date	/	/2019
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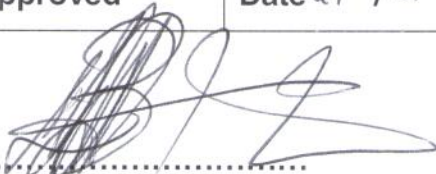
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Chairperson Risk Management Committee

Approved	Date	24 / 1	/2019
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Accounting Officer

Approved	Date	24 / 01	/2019
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Mayor