



MAKANA
MUNICIPALITY | EASTERN CAPE

RISK MANAGEMENT POLICY

To: Senior Management: 2012
To: Risk Management Committee:2012
To: Mayoral Committee: 2012
To: All Portfolio Committees: 2012
To: Audit Committee: 2012
To: Ordinary Council:



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1. DEFINITIONS

Throughout this document, unless otherwise stated, the words in the first column below have the meanings stated opposite them in the second column (and cognate expressions shall bear corresponding meanings).

Risk The possibility of any event, negative or positive, either internally or externally generated (where the impact may be internal or external), which may critically impact on the achievement of the business objectives. It is measured in terms of consequence and likelihood.

Consequence The outcome of an event or situation, expressed qualitatively or quantitatively, being a loss, injury, disadvantage or gain. There may be a range of possible outcomes associated with an event.

Likelihood A qualitative description or synonym for probability or frequency.

Risk Assessment The outcome of an event or situation, expressed qualitatively or quantitatively, being a loss, injury, disadvantage or gain. There may be a range of possible outcomes associated with an event.

Risk Management The culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects.

Risk Treatment Selection and implementation of appropriate options for dealing with risk. Conceptually, treatment options will involve one or a combination of the following five strategies:

- Avoid the risk
- Reduce the likelihood of occurrence
- Reduce the consequences of occurrence
- Transfer the risk
- Retain/accept the risk

Risk Management Process The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

Municipality Makana Municipality

2. Introduction

- 2.1 Makana Municipality (“the Municipality”) is required to comply with the Municipal Finance Management Act No. 56 of 2003 (“MFMA”), while adherence to the King III Report on Corporate Governance (“King III”) and COSO Risk Management Framework (“COSO”) is also recommended.
- 2.2 The MFMA, King III and COSO reports have numerous onerous requirements, among these being that the Municipality must maintain adequate and effective systems of internal control and risk management.
- 2.3 However, risk management is crucial to both the requirements of the MFMA, King III and COSO reports, as well as good business management and good corporate governance. Risk management can be summarised as:

Understanding the risks that the organisation faces and the impact on the achievability of the organisation’s objectives, then mitigating those risks that would have an unacceptable impact on the organisation.

- 2.4 The Risk Management Policy assists the Risk Management unit to render advice/consulting activities that shall add value and improve the Municipality’s operations so that the strategic objectives are met.

3. Objectives of the Policy

- 3.1 The objectives of this Risk Management policy is to assist management to make informed decisions which will:
- a) Improve the municipality’s performance on decision making and planning;
 - b) Promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities to benefit the municipality is encouraged;
 - c) Provide a sound basis for integrated risk management and internal control as components of good corporate governance.
- 3.2 The improvements and benefits which effective Risk Management should provide are:

- a) An increased likelihood of achieving the municipality's aims, objectives and priorities;
- b) Prioritising the allocation of resources;
- c) Giving an early warning of potential problems; and
- d) Providing key officials with the skills to be confident risk takers.

4. Regulatory Framework

- 4.1 Municipal Finance Management Act No. 56 of 2003
- 4.2 King III Report on Corporate Governance ("King III")
- 4.3 COSO Risk Management Framework ("COSO")
- 4.4 Risk Management Framework by National Treasury
- 4.5 Fraud Prevention Policy
- 4.6 Risk IT Framework

5. Scope of Application

The policy shall apply to:

- 5.1 All officials in the Municipality.

6. Policy Statement

The policy shall apply to:

- 6.1 The Municipality adopted the Public Sector Risk Management methodology developed by National Treasury in mitigating the identified risks in accordance with the risk appetite of the Municipality.
- 6.2 The responsible manager for each Directorate shall identify, implement risk management systems within their areas of responsibilities and monitor progress to ensure full implementation of risk management processes.
- 6.3 All critical risk areas within the Municipality will be included on an annual basis in the Risk Assessment Report for the Municipality.

7. Roles and Responsibilities

7.1 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.

7.2 Finance portfolio committee

The role of the finance portfolio committee is to –

- (a) advise the Municipality with regard to the roles of the Council set out in paragraph 6.1
- (b) review the risk assessment and risk treatment resolutions of the Municipal Manager.

7.3 Risk Management Committee

The role of the Risk Management Committee is to –

- (a) Review the risk appetite and tolerance and recommend for approval by the Accounting Officer;
- (b) Evaluate the effectiveness of mitigating strategies to address the material risks of the Municipality;
- (c) Report to the Accounting Officer any material changes to the risk profile of the Municipality;
- (d) Review the fraud prevention policy and recommend for approval by the Accounting Officer;
- (e) Evaluate the effectiveness of the implementation of the fraud prevention policy;
- (f) Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity;
- (g) Provide proper and timely reports to the Accounting Officer on the state of risk management, together with aspects requiring improvements accompanied by the Committee's recommendations to address such issues.

7.4 Municipal Manager

The Municipal Manager's role in risk management is to –

- (a) build a risk aware 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 financial services portfolio committee 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.

7.5 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;
- (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

7.6 Directors

The role of directors 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.

7.7 Operational staff and other employees

The operational staff and other employees' role in risk management includes –

- (a) Familiarity with the overall risk management vision, risk management framework, risk management policy and fraud prevention policy;
- (b) Acting in terms of the spirit and letter of the above;
- (c) Applying the risk management process to their respective roles;
- (d) Focusing upon identifying risks and reporting these to the relevant risk owner. Where possible and appropriate manage these risks;
- (e) Adhering to the code of conduct for the institution;
- (f) Participation in risk identification and risk assessment within their business unit;
- (g) Implementation of risk responses to address the identified risks.

7.8 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;
- (h) providing active support and involvement in the risk management process;
- (i) facilitating risk identification/assessment and educating line staff in risk management and internal control; and
- (j) co-ordinating risk reporting to the Municipal Manager and the audit committee.

7.9 Audit Committee

The Audit Committee's role in risk management is –

- (a) to assess the risk measurement strategies of the Municipality and advise the Council and the Municipal Manager with regard thereto;
- (b) to assess the risk profile of the Municipality prepared by the Municipal Manager and advise the Council and the Municipal Manager with regard thereto;
- (c) to advise the Council and the Municipal Manager with regard to the making, implementation and maintenance of appropriate accounting and internal control measures for the safe custody and protection of the municipality's assets and resources;
- (d) with regard to the audit report, evaluate the findings of the Auditor-General with regard to any substantial deficiencies 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 identification, assessment and 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.

7.10 Chief Risk Officer

The role of the Chief Risk Officer in risk management is to –

- (a) communicate the risk management policy, risk management strategy and the risk management implementation plan to all the stakeholders in the Municipality;
- (b) Setting up of the risk management structure and risk management reporting lines within the Municipality;
- (c) Continuously driving the risk management process towards best practice;
- (d) Coordinating risk assessments within the Municipality and directorates on an annual basis prior to the end of the financial year;
- (e) Assisting management in developing and implementing risk responses for each identified material risk;
- (f) Participating in the development of the combined assurance plan for the Municipality, together with internal audit and management;

- (g) Continuously transferring risk management principles and practices, through training interventions, to all stakeholders within the Municipality;
- (h) Collating and consolidating the results of the various assessments within the Municipality;
- (i) Compiling the necessary reports to the Risk Management Committee.

8. Risk Management Implementation Plan

The primary objective of risk management implementation plan is to facilitate the execution of risk management. A copy of the “Risk Management Implementation Plan” is attached as Appendix 1.

9. Monitoring and Evaluation

The Risk Management section shall monitor the implementation of the policy and shall report any deviations to the Accounting Officer in writing.

10. Policy Review

The Policy shall be reviewed on an annual basis.

11. Approval

This policy was adopted by the Municipal Council on
per **Resolution Number:**

EXECUTIVE MAYOR

MUNICIPAL MANAGER