UMHLABUYALINGANA MUNICIPALITY

RISK MANAGEMENT POLICY AND STRATEGY

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1. **ABBREVIATIONS**
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KPI	Key Performance Indicators
MFMA	Municipal Finance Management Act
COSO	Committee of Sponsoring Organisations
MM	Municipal Manager
ERM	Enterprise Risk Management
RM	Risk Management
IDP	Integrated Development Plan
SDBIP	Service Delivery Budget Implementation Plan
SOP	Standard Operating Procedures
MSA	Municipal Systems Act
OHS	Occupational Health and Safety
SMART	Specific, Measurable, Achievable, Realistic & Time bound
MANCO	Management Committee
EXCO	Executive Committee

3. DEFINITIONS OF TERMS

BASIC TERMS	DEFINITON
Risk	Risk is a condition in which the possibility of loss exists
Impact or Severity	Outcome of an event
Probability	Extent to which the event is likely to occur
Event	Occurrence of a particular set of circumstances
Cause	Item or activity having a potential for a consequence
Risk Management	Set of elements of an organisation's management system concerned with managing risk
Risk Assessment	Overall process of risk analysis and risk evaluation in order to identify potential opportunities or minimise loss.
Risk Analysis	Systematic use of information to identify sources and to estimate the risk
Risk Identification	Process to find, list and characterise elements of risk
Risk Evaluation	Process of comparing the estimated risk against given risk criteria to determine the significance of the risk
Risk Control	Actions taken to lessen the probability of negative consequences or both, associated with a risk.
Mitigation	Limitation of any negative consequence of a particular event
Risk Treatment	Process of selection and implementation of measures to modify risk
Risk Avoidance	Decision not to become involved in, or action to withdraw from, a risk situation
Risk Transfer	Sharing with another party the burden of loss or benefit of gain, for a risk
Risk Acceptance	Decision to accept a risk
Residual Risk	The level of Risk remaining after risk treatment
Inherent Risk	The risk to an organisation in the absence of any management might take to alter either the risk probability or impact

Risk Register	A formal listing of risks identified, together with the results of the risk analysis, risk evaluation procedures together with details of risk treatment, risk control, risk reduction plans.
Chief Risk Officer (CRO)	An official of the Municipality who has no *other* responsibilities except for advising on, formulating, overseeing and managing all aspects of an organisation's risk management system and monitors the organisation's entire risk profile, ensuring that major risks are identified and reported upwards. The CRO provides and maintains the risk management infrastructure to assist the council in fulfilling its responsibilities.
Risk Champions	The risk champions assist the CRO in the fulfilment of his/her duties. These persons can be in line management in the departments but have an alternative reporting line to the CRO or report directly to the CRO.
Stakeholder	Any individual, group or organisation that can affect, be affected by, or perceive itself to be affected by a risk
Risk Matrix	The numbers of levels of probability and consequences chosen against which to measure risk.
Risk Profile	These are all the risks faced by the Municipality, ranked according to a risk matrix and indicated graphically on a matrix. The Risk Score is determined by multiplying the frequency and severity of the risk.
Risk Appetite	The level of residual risk that the organisation is prepared to accept without further mitigation action being put in place, or the amount of risk an organisation is willing to accept in pursuit of value.

4. INTRODUCTION

The management of risk is the process by which the Accounting Officer, Chief Financial Officer and the other senior management of the Municipality will pro-actively, purposefully and regularly, but at least annually, identify and define current as well as emerging business, financial and operational risks and identify appropriate, business and cost effective methods of managing these risks and identify appropriate, business and cost effective methods of managing these risks within the municipality, as well as the risk to the stakeholders.

5. PURPOSE

a) The purpose of this policy and strategy is to provide guidance to Council, Management and staff of Umhlabuyalingana Municipality (ULM) on the implementation of the municipal-wide risk management framework. The contents must therefore be read and understood by all Councilors, the Municipal Manager, Senior Managers and line supervisors who will be responsible for implementing the relevant parts of the policy and strategy in their areas of responsibility. In addition this policy and strategy serves as a base to set the key performance indicators (KPIs) and targets regarding the level of risk management responsibility and performance that ULM will strive to achieve and against which all the municipality's operations and activities can be evaluated.

b) In addition the policy and strategy provides ULM with a developed direction and capability towards on-going management of the ULM risk profile (risk register) and embedding risk management in day-to-day planning, execution, monitoring and achievement of organizational goals.

6. LEGISLATIVE FRAMEWORK

The Municipal Manager has committed Umhlabuyalingana to a process of risk management that is aligned to the principles of good corporate governance, as supported by the following:

- Municipal Finance Management Act (MFMA), Act no 56 of 2003.

- Public Sector Risk Management Framework

- Municipal-Wide Risk Management Framework

- COSO Enterprise-Wide Risk Management Framework

7. SCOPE

The risk management policy and strategy applies in the entire municipal business and to all role players in risk management as defined in the risk management policy and framework.

8. BENEFITS OF RISK MANAGEMENT

Umhlabuyalingana 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 rigor and analysis;

- innovation in terms of new ways of doing things to combat risk;

- 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.

9. Risk Management Framework

This Policy is the starting point in the risk management framework and must be prepared to ensure that risk management becomes the concern of line management and everyone in the Municipality and that risk management practices are consistent across the whole of Municipality. The risk management framework adopted by this Policy is comprised of four key elements as illustrated below.

Identification	■ all activities associated with the Municipality's business, both existing and new should be assessed in order to identify material current as well as emerging risks, which threaten the achievement of objectives or may cause material loss or damage or business continuity implications for the stakeholders or reputation risks for the Municipality

Measurement

- the risks associated with any new activities will be evaluated in order to determine the potential exposure to the Municipality

- all material existing risks will be re-evaluated on at least an annual basis

- all risks will be evaluated on a quantitative basis and if this is not appropriate, qualitative factors will be adopted

Management

- appropriate risk management will enable the Municipality to both minimise loss and optimise opportunities

- the identification and monitoring of risk is the responsibility of the Accounting Officer but the Chief Financial Officer and Heads of Departments also accept joint responsibility

- the Risk and Compliance Manager will co-ordinate the risk management system, monitoring of results and the reporting of risks to the Accounting Officer

- the operation of risk mitigation procedures is the responsibility of the Accounting Officer and the Chief Financial Officer with support from the Heads of Departments

Reporting

- all new risks with a potential financial exposure greater than an agreed amount as set between the Accounting Authority, Accounting Officer and the Chief Financial Officer or with a high or greater qualitative rating, and any material changes to the existing risk profile must be reported to the Accounting Officer on a regular basis

- risks should be reported using the following key categories:

- safety/security
- service delivery/operational
- human resources
- strategic
- environmental

- financial
- reputation
- legal compliance
- political
- health

10. Accountability for Risk Management

The detailed line accountability for Risk management is fully aligned with the Municipality's management structure. Accordingly, the approvals, responsibilities and accountabilities applicable to the identification, evaluation, evaluation/analysis, treatment, results and reporting of the Municipality's risks are attributed to the Accounting Officer and Chief Financial Officer. The Accounting Officer is responsible for ultimate sign off of all risk information to the council and review prior to any sign-off.

11. Risk identification and tolerance

11.1 Risk identification

The municipality will consider and assess the risk implications of all actions it undertakes in relation to both existing and proposed activities, system and procedures. All risks identified will be evaluated and documented, together with the processes which mitigate against/manage those risks, and who is accountable for them. Risk identification is a line management responsibility.

11.2 Maximum risk exposure/ risk tolerance

The municipality will accept a commercial level of risk such that the long-term sustainability of the Municipality is reasonably assured.

Where new risks arise which exceed the stipulated measures set by the Accounting Officer , they will be:

- Evaluated as stipulated in this policy
- Immediately reported to the Accounting Officer
- Monitored through the risk management process; and
- Promptly reported to the Accounting Officer together with a management strategy of the identified risk**.**

The proposed mitigating strategy could fall into one or more of the following categories:

- Accept the risk

- Reduce the risk

- Share the risk

- Transfer the risk

- Avoid the risk

- Monitor the risk

12. PRINCIPLES OF UMHLABUYALINGANA MUNICIPALITY ENTERPRISE RISK MANAGEMENT

The principles contained in this policy will be applied at both strategic/organisational and operational levels of Umhlabuyalingana Municipality. The policy will also consider both internal and external risks and will include risks such as projects risks, inter-departmental risks, stakeholder risks etc.

- Our positive approach to risk management means that we will not only look at the risk of things going wrong but also risks relating to not taking advantage of opportunities or not capitalizing on our inherent strengths as a municipality.

- All risks and risk management activities will be aligned to the Umhlabuyalingana Municipality's values and principles, strategic, functional and operational objectives, processes and procedures underpinning the business environment of Umhlabuyalingana Municipality. This implies that risk management will not be performed in a vacuum or as an event, but it will be embedded to the strategy and operational day-to-day processes of Umhlabuyalingana Municipality.

- Our risk management approach will inform and direct our work to gain confidence on the reliability of control strategies and therefore provide assurance. Managers and staff at all levels will have a responsibility to identity, evaluate, monitor and report on risks in their respective environment, and will be adequately equipped to do so.

- We will anticipate, and where possible, prevent risks resulting in unwanted events rather than dealing with their consequences. However, for some risks where the likelihood of the risk is remote but the consequences are high, we will ensure that business continuity plans are developed and authorized by the Municipal Manager. This will allow us to contain the negative effects of unlikely events, which might occur. Examples of risks with a low likelihood may include natural disasters in South Africa.

- In determining appropriate risk management controls, we will consider the impact of the risks occurring and the cost of implementing the controls and this will be weighed against the potential benefits of reducing such risk.

- We will also ensure that all role players with critical roles in risk management processes are capacitated and work-shopped on the risk management framework, policy and strategy.

13. ACCOUNTABILITIES, ROLES AND RESPONSIBILITIES

Role Player	Role
13.1 Council/EXCO	13.1.1 Define the mission, vision and strategic objectives 13.1.2 Identify strategic risks threatening the achieving of strategic objectives (ERM at strategic setting). 13.1.3 Approve the strategic and departmental risk registers. 13.1.4 Delegate the responsibility to identify and manage risks to management (MM). 13.1.5 Monitor the adequacy and effectiveness of the risk management processes through the Audit Committee and internal audit. 13.1.6 Report on the effectiveness of risk management in the annual report.
13.2 Audit Committee	13.2.1 They review the strategic and departmental risk registers and to provide inputs on the approved register. 13.2.2 They approve the three-year audit plan as well as the annual audit plan of the municipality's internal audit department. 13.2.3 They review reports submitted by internal audit regarding the control environment. 13.2.4 They manage the relationship between the internal auditors and Auditor-General
13.3 Municipal Risk Management Committee	13.3.1 Responsible for the RM oversight function including business continuity throughout the municipality. 13.3.2 Reports quarterly to Audit committee on the implementation of risk management policy and strategy. 13.3.3 Functions on the basis of an approved charter and Terms of Reference
13.4 Management	13.4.1 Take responsibility for strategic and operational risks facing the municipality through their departments. 13.4.2 Put measures in place to mitigate unacceptable risks (risk action plans). 13.4.3 React quickly on recommendations for corrective action by internal audit and auditor-general.

13.5 Risk and Compliance Manager	13.5.1 Coordinates the development, implementation, monitoring and measurement and reporting of the entire risk management process within the municipality. 13.5.2 Reports monthly to the Municipal Manager on the implementation of risk management policy and strategy. 13.5.3 Reports quarterly to the risk committee on the implementation of risk management policy and strategy.
13.6 Risk Champions	13.6.1 Coordinates risk management activities within the department. 13.6.2 Reports to Head of Department on implementation of risk mitigation strategies.
13.7 Internal Audit	13.7.1 Transfers high risks with controls to the internal audit plan for approval by the Audit Committee. 13.7.2 Conducts internal audit assignments to test the effectiveness of internal controls put in place by management. 13.7.3 Prepares internal audit reports with opinions on the extent of effectiveness of the internal controls and risk management processes. 13.7.4 Recommends to management for corrective action where controls are not followed or not working. 13.7.5 Prepares reports quarterly to the audit committee regarding the effectiveness of the control environment and risk management processes within the municipality.
13.8 External Audit	13.8.1 Provides independent assurance on the effectiveness of risk management.
13.9 Staff	13.9.1 Comply with municipal legislation, policies and procedures. 13.9.2 Embed risk management on their day-to-day activities. 13.9.3 Participate in risk management processes such as operational and process risk assessments.

14. RISK MANAGEMENT STRATEGY

The basis of the risk management process is a continuous cycle anchored in the five steps of identifying, analysing, responding, monitoring and reporting risks as described in the COSO framework (Committee of Sponsoring Organisations). Within each step of the process, regular and meaningful communication is essential to improve the likelihood of success. The following key COSO elements of the risk management process should be followed in ensuring full implementation of the risk management policy of ULM.

Internal Environment

The internal environment in risk management relates to the establishment of the risk management infrastructure and becomes the foundation for effective risk management. The internal environment should include:

- The integrity and ethical values of council and executive management;
- Management philosophy and operating style;
- Policies and risk management strategy;
- Risk management awareness;
- Risk management accountability (risk management KPIs in performance agreements of managers);
- Risk management committees for oversight;
- Definition of roles and responsibilities;
- Definition of the risk appetite of the municipality in line with recent prior auditor-general materiality levels and prevailing control environment of the municipality based on auditor-general reports and internal audit reports;

Objective Setting

The starting point for risk management is a clear understanding of what the ULM is set to achieve (objectives). The objectives of ULM are outlined in its IDP, SDBIP and SOPs. Risk Management is about managing threats that might hinder the delivery of services and maximizing opportunities that will help deliver them.

This requires that effective risk management should be aligned to the planning processes and should take into account the environment (internal and external) within which the municipality operates. To this end, when identifying risks objectives should be considered at four levels, namely:

Strategic: high-level goals aligned with and supporting ULMs mission (e.g. IDP objectives per key performance area)
Operations: effective and efficient use of ULM resources (assets, budget, people, etc);
Reporting: reliability of reporting (credibility of financial and performance information);
Compliance: compliance with applicable laws, regulations and policies (e.g. MFMA, MSA, OHS, etc)

Event Identification

Systematically and continuously identify risks faced in meeting objectives

Annually and for each business objective management and councilors should identify events (key business risks and opportunities) at three levels, namely;

- *First level, strategic risks* against each strategic objective contained in the IDP, council and management should identify key risks that might impede the achievement of the business objectives. This should be done by way of a risk assessment attended by heads of departments and where possible members of the mayoral committee.

- *Second level, operational risks* should be identified following the identification of the strategic risks. The operational risks are based on the operational plans/SDBIPs of departments and are focused on key business functions of departments. This operational risks can also be done by way of risk assessment workshop, either as part of the strategic risk assessment or a separate departmental risk assessment workshop attended by section heads

- *Third level, process risks* should be identified for each business process linked to the operational risks of the department. This should be done through interviews with key process custodians within the department, and the results collaborated with section heads and where possible, head of departments.

The following risk categories should be taken into consideration when identifying potential risks:

Internal Environment
- o Human Resource
- o Financial and reporting
- o Regulatory/Compliance
- o Project management/Service delivery
- o Health and safety
- o Information Technology and Communication
- o Business Continuity

External Environment
- o Environmental/Social
- o Political
- o Economical
- o Reputational
- o Legal and compliance
- o Business Continuity

Risk Analysis and rating of Risk

Assess the significance of risks to enable the development of Risk Responses

Once the risks have been identified, the likelihood of the risk occurring and the potential impact if the risk does occur should be assessed using a risk-rating table adopted as part of the risk management framework *(re-Municipal-Wide Risk Management Framework)*.

Risk Response or Treatment

a) Once risks have been analysed appropriate risk responses will be determined to mitigate risks to an acceptable level within reasonable costs. ULM's inherent and residual risk profile presented on the Risk Register should be monitored against the target profile (residual risks rating).

b) Risk can be dealt with in various ways. The risk response options encompass all possible management responses to risk, whether viewed as opportunities, uncertainties or hazards. The risk response options and examples of activities under each option are outlined below:

- ▪ Mitigate (steps taken to reduce either the likelihood or impact e.g. through policies, procedures, registers etc.);

- ▪ Transfer (steps taken to shift the loss or liability to others i.e. Insurance on vehicles, computers etc);

- ▪ Exploit (steps taken to leverage opportunities e.g. strengthening relations with other departments to assist in management of the risk);

- ▪ Avoid (steps taken to prevent the occurrence of hazards e.g. deciding not to embark on a project, activity because it is too risky and has a highly hazardous impact); or

- • Acceptance (an informed decision to accept both the impact and likelihood of risk event e.g. risks that ULM can do nothing about but live with them and just keep monitoring).

c) Risk responses or treatment decisions will be deliberated by management during the risk assessment workshop. This will include the identification of further actions to achieve the desired residual risk. The risk committee has the ultimate oversight of the decision taken by management in this regard.

Control Activities

After a decision has been taken control activities need to be considered. The fundamental approach in this regard is two-fold, namely;

a) The determination of **existing control** activities in the form of policies, procedures, registers, council committees, legislation etc. This is then followed by the assessment of the strength of these controls in terms of mitigating the risk identified. The assessment is referred to as the "***current control effectiveness"*** i.e. if applied/complied with 100% and diligently, will the control mitigates the risk identified? In other words, are there no deficiencies in these controls that may cause the risk to succeed? An example is a diligent and committed security guard safeguarding cash with no fire arm.

b) The implementation of **additional controls**, if the residual risk is above the tolerable level of risk (targeted residual risk).

Communication

Communicating the risk management information and strategies to the rest of ULM

The management of ULM should communicate the risk management framework, risk management policy and the risk register throughout the municipality, and ensure awareness by all role players. This should be done through planned workshops prioritizing all departments and sections of the municipality. Risk management information should be stored on local networks to ensure easy accessibility.

Risk Monitoring

a) The purpose of the monitoring and review are to:

- Provide assurance that risks are being mitigated as expected (risk action plans are being implemented by risk owners); and reported to Risk Management Committee
- Assess whether the risk response plans remain relevant; and
- Ensure that the risk profile reflects emerging risks during the course of the financial year, i.e. new exposures through on-going of management reports, internal audit reports, auditor-general reports, media, etc.

b) Risk monitoring should consist of a combination of regular communication, periodic reviews and evaluation by independent assurance providers such as internal and external audits.

c) Key aspects of monitoring will be:

- Assessment of the quality and appropriateness of mitigating actions, in terms of adherence to the SMART principle.
- Regular monitoring reports from all departments within the municipality on a regular basis to the risk management unit.
- Verification of implementation of risk action plans by the risk management unit for review of the residual risk.

d) Possibilities of incorporating Risk Management Reporting as a standing agenda item at a management meeting (MANCO) after each quarter or establishing an Audit and Risk Committee should be considered by Council in consultation with Management.

Reporting

a) ULM will ensure that information is received by the appropriate interested parties in risk management i.e.

- Municipal Council
- Audit Committee
- Risk Committee
- MANCO

b) On a timely basis, in a form and format that will aid the monitoring and control of the business.

c) Key reporting information will include:

- Critical risks facing, or potentially facing the municipality (e.g. top 10-15 risks from the risk register);
- Department risk registers
- Emerging risks from the ordinary business of ULM;
- Updated residual risks due to implementation of risk mitigation plans (e.g. quarterly updated risk register);
- Quarterly risk status on implementation of risk action plans across departments.

d) The information provided will allow council and the risk committee to determine that the implementation of the risk management strategy has been effective. An opportunity to identify inherent inefficiencies and bottlenecks will be identified timeously for decision making (i.e. review the risk management strategy and policy, etc).

15. ESTABLISH THE PROCESS OF ONGOING RISK MANAGEMENT

Whilst every employee in the municipality is responsible for managing risks in their individual parts. This strategy should be driven by the Accounting Officer and delegated to the Risk and Compliance Manager and managed by the Risk management Committee.

16. ULM ADMINISTRATION

The policy and strategy should be reviewed annually by the Risk Committee (through the Municipal Manager) in order to keep updated with the developments in risk management. The reviewed strategy will be approved by council by way of a resolution.

VERSION	DATE	PREPARED BY
Version 1	10 SEPTMBER 2019	

17. APPROVAL

This policy and strategy has been considered and adopted by Umhlabuyalingana Municipality.

Recommended by : ……………………………   ……………………..
                       Municipal Manager   **Date**

Recommended by : ……………………………   ……………………..
                       Risk Committee Chairperson   **Date**

Approved by   : ……………………………   ……………………..
                       Council   **Date**

Resolution Number:…………………………..