



THABA CHWEU LOCAL MUNICIPALITY

RISK MANAGEMENT POLICY

2021/2022

TABLE OF CONTENT

	Page
1. Introduction.....	3
2. Purpose and scope.....	3
3. Objective of the risk policy.....	3
4. Roles and responsibilities of relevant terms.....	4
5. Risk Management principles.....	5
6. General principle.....	5
7. Principle for managing Specific risk.....	6
8. Responsibility for the Risk Management.....	6
9. Risk Identification and Tolerance.....	9
10. Risk Framework.....	11
11. Assurance.....	11
12. Risk Measurement.....	11
13. Policy Review and Approval.....	11

1. Introduction

The Municipality Manager has committed Thaba Chweu Local Municipality dedicated personnel in the form of a committee 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**.

The management of risk is the process by which the Municipal Manager, Chief Financial Officer and other Senior Management of the Thaba Chweu Local Municipality will pro-actively, purposefully and regularly, but at least annually, identify and define current as well as emerging risks, financial and operational risks and identify appropriate business and cost-effective methods of managing these risks within the Municipality.

2. Purpose and scope

2.1 An entity-wide approach to risk management will be adopted by the municipality, which means that every key risk in each part of the municipality 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 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 officials, communities and other stakeholders in terms of corporate governance.

2.2 The purpose of this document is to set out the Municipality's Risk Management Policy and amongst other things it includes the following:

- The *objectives* of our Risk Management policy;
- *Roles and responsibilities* of relevant terms;
- *Risk management principles*;
- *Relative roles and responsibilities*;
- The Municipality's *Risk Appetite and Tolerance Framework* and how it will work.

2.3 Risk Management in the municipality provides a framework to identify, assess and manage potential risks and opportunities. It provides a way for management to make informed decisions.

2.4 Effective Risk Management affects everyone in the municipality. To ensure a widespread understanding, Executive Management and all operational/business unit managers should be familiar with, and all staff and councillors are aware of, the principles set out in this document.

3. Objective of the risk policy

3.1 The objectives of this Risk Management policy are to assist management to make informed decisions which will:

- Improve the municipality's performance on decision making and planning;
- 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;
- 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:
- An increased likelihood of achieving the municipality's aims, objectives and priorities;
 - Prioritising the allocation of resources;
 - Giving an early warning of potential problems;
 - Prevention of fraud and corruption; and
 - Providing officials with the skills to be confident risk takers.

4. Roles and responsibilities of relevant terms

For the purpose of this policy, the following words will be defined as follows:

4.1 Members of Council

Councillors are collectively accountable for the achievement of the goals and objectives of the municipality. As risk management is an important tool to support the achievement of these goals and it is important that the Councillors should provide leadership to governance and risk management.

4.2 Audit Committee

The Audit Committee provides the Municipal Manager with independent counsel, advice and direction in respect of risk management. The stakeholders rely on the Audit Committee for an independent and objective view of the Municipality's risks and effectiveness of the risk management process. In this way, the Audit Committee provides valuable assurance that stakeholder interests are protected.

4.3 Risk Management and Fraud Prevention Committee

The Risk Management and Fraud Prevention Committee is an oversight committee responsible to the Municipal Manager for the monitoring of risk management. It is responsible for assisting the Municipal Manager in addressing its oversight requirements of risk management and evaluating the Municipality's performance regarding risk management.

4.4 Municipal Manager

The Municipal Manager is accountable for the Municipality's risk management in terms of legislation. It is important that the Municipal Manager sets the right tone for risk management in the Municipality, this will ensure that the Municipality operates in a conducive control environment where the overall attitude, awareness, and actions of management regarding internal controls and their importance to the Municipality is at par with the stated vision, values and culture of the Municipality.

4.5 Management

Management is accountable to the Municipal Manager for designing, implementing and monitoring risk management, and integrating it into the day-to-day activities of the institution. This needs to be done in such a manner as to ensure that risk management becomes a valuable strategic management tool for underpinning the efficacy of service delivery and value for money. Senior managers in charge of the Municipality's departments (Heads of Departments) have overall responsibility for managing risks related to their department's objectives.

4.6 Chief Risk Officer (CRO)

The primary responsibility of the CRO is to bring to bear her/his specialist expertise to assist the institution to embed and leverage the benefits of risk management to achieve its stated objectives. The CRO is accountable to the Municipal Manager for enabling the business to balance risk and reward and is responsible for coordinating the institution's ERM approach. In the absence of a CRO the Risk Champions will report directly to the Risk Management Committee.

4.7 Internal Audit

Internal Audit provides to the Municipal Manager an independent assurance regarding the risk management activities of the Municipality. Hence, Internal Audit is responsible for providing independent assurance that management has identified the institution's risk and has responded effectively. Internal audit may also play an advisory and consulting role to Management regarding risk management matters.

4.8 Risk Management

Risk Management can be defined as the identification and evaluation of actual and potential risk areas as they pertain to the municipality, followed by a process of either termination, transfer, acceptance (tolerance) or mitigation of each risk.

4.9 Risk

A *risk* is something which could:

- Have an impact by not taking opportunities or not capitalising on corporate strengths,
- Prevent, influence the achievement of the set objectives,
- Cause financial disadvantage, i.e., additional costs or loss of money or assets, or
- Result in damage to or loss of an opportunity to enhance the municipality's reputation.

4.10 Strategic Risk

Strategic Risk is a significant risk requiring reference to and monitoring by senior management, i.e., those risks assessed as having a high impact on the business of the Municipality and a high likelihood of occurring.

4.11 Operational Risk

Operational Risk is any less significant risk requiring resolution elsewhere in the organisation, i.e., risks with a medium or low impact and likelihood which are managed by Departments.

5. Risk Management Principles

- 5.1 The principles contained in this policy will be applied at both strategic and operational levels within the municipality.
- 5.2 The municipality's Risk Management Policy will be applied to all operational aspects of the Municipality and will consider external strategic risks arising from or related to other government municipalities and the public, as well as wholly internal risks.
- 5.3 Our positive approach to risk management means that we will not only look at the risk of things going wrong, but also the impact of not taking opportunities or not capitalising on corporate strengths.

6. General Principles

- 6.1 All risk management activities will be aligned to corporate aims, objectives and the municipality's Priorities, and aims to protect and enhance the reputation and standing of the municipality.
- 6.2 Risk assessment will form part of the municipality strategic planning, business planning and investment / project appraisal procedures.
- 6.3 Risk management will be founded on a risk-based approach to internal control which will be embedded into day-to-day operations of the municipality.
- 6.4 Managers and staff at all levels will have the responsibility to identify, evaluate and manage or report risks.

7. Principles for Managing Specific Risks

- 7.1 Risk Management in the municipality should be proactive and reasoned. Strategic and operational risks should be identified, objectively assessed, and actively managed.
- 7.2 The aim is to anticipate, and where possible, avoid risks rather than dealing with their consequences. However, for some key areas where the likelihood of a risk occurring is relatively small, but the impact is high, we may cover that risk by developing Contingency Plans. For an example, we must develop Business Continuity Plans and or Disaster Recovery Plans. This will allow us to contain the negative effect of unlikely events which might occur.
- 7.3 In determining an appropriate response, the cost of control/risk management, and the impact of risks occurring will be balanced with the benefits of reducing and or managing risk. This means that we should not necessarily set up and monitor controls to counter risks where the cost and effort are disproportionate to the impact or expected benefits.
- 7.4 We also recognise that some risks can be managed by transferring them to a third party, for example by contracting out, Public Private Partnership arrangements, or by insurance.

8. Responsibilities for the Risk Management

8.1 The Municipal Manager

The total process of risk management which includes a related system of internal controls is the responsibility of the Municipal Manager. Amongst other things, the Municipal Manager is responsible for;

- 8.1.1 Setting the tone at the top by supporting risk management and allocating resources towards the implementation thereof.
- 8.1.2 Establishing the necessary structures and reporting lines within the institution to support risk management.
- 8.1.3 Consider and act on recommendations from the audit committee, internal audit, risk management committee and other appropriate structures for improving the overall state of risk management.
- 8.1.4 Influencing an institutional "risk aware" culture.
- 8.1.5 Place the key risks at the forefront of the management agenda and devote personal attention to overseeing their effective management.
- 8.1.6 Hold management accountable for designing, implementation, monitoring and integrating risk management principles into their day-to-day activities.
- 8.1.7 Approve the risk management strategy, risk management policy, risk management implementation plan and fraud risk management policy.
- 8.1.8 Holding the structure responsible for risk management activities accountable for adequate performance.
- 8.1.9 Ensuring that a conducive control environment exists to ensure that identified risks are proactively managed.
- 8.1.10 Approving the institution's risk appetite and risk tolerance
- 8.1.11 Leverage the audit committee, internal audit, risk management committee and other appropriate structures for assurance on the effectiveness of risk management.
- 8.1.12 Provide all relevant stakeholders with the necessary assurance that the key risks are properly identified, assessed, mitigated and monitored.
- 8.1.13 Provide appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management.

8.2 Risk Management and Fraud Prevention Committee

- 8.2.1 Review the risk management policy and strategy and recommend for approval by the Municipal Manager.
- 8.2.2 Review the risk appetite and tolerance and recommend for approval by the Municipal Manager.
- 8.2.3 Review the institutional risk identified and assessment methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register.
- 8.2.4 Evaluate the effectiveness of mitigating strategies to address the material risks of the institution.
- 8.2.5 Report to the Municipal Manager any material changes to the risk profile of the institution.
- 8.2.6 Review the fraud prevention policy and recommend for approval by the Municipal Manager.
- 8.2.7 Evaluate the effectiveness of the implementation of the fraud prevention policy.
- 8.2.8 Review any material finding and recommendations by assurance providers on the system of risk management and monitor that appropriate action is instituted to address the identified weaknesses.
- 8.2.9 Develop goals, objectives and key performance indicators for the committee for approval by the Municipal Manager.
- 8.2.10 Develop goals, objectives and key performance indicators to measure the effectiveness of the risk management activity.
- 8.2.11 Set out the nature, role, responsibilities and authorities of the risk management function within the institution for approval by the Municipal Manager and oversee the performance of the risk management function.
- 8.2.12 Provide proper and timely reports to the Municipal Manager on the state of risk management, together with aspects requiring improvement accompanied by the committee's recommendations to address such issues.

8.3 Management

- 8.3.1 Acknowledges the "ownership" of risks within their functional areas and all responsibilities associated with managing such risks.
- 8.3.2 Cascades risk management into their functional responsibilities.
- 8.3.3 Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation and ongoing opportunities for skills development.
- 8.3.4 Hold officials accountable for their specific risk management responsibilities.
- 8.3.5 Maintain the functional risk profile within the institution's risk tolerance and appetite.
- 8.3.6 Provides reports on the functional risk management consistent within the institution's reporting protocols (including appearing before committees)
- 8.3.7 Aligns the functional and institutional risk management methodologies and processes.
- 8.3.8 Implements the directives of the Municipal Manager concerning risk management.
- 8.3.9 Maintain a harmonious working relationship with the Chief Risk Officer and supports him/her in matters concerning the functions of risk management.
- 8.3.10 Maintain a harmonious working relationship with the risk champion and supports the risk champion in matters concerning the functions of risk management.
- 8.3.11 Keeps key functional risks at the forefront of the management agenda and devotes personal attention in overseeing the management of these risks.
- 8.3.12 Ensures that risk management forms part of their performance contract.

8.4 Chief Risk Officer

- 8.4.1 Develop the overall enterprise risk management vision, risk management strategy, risk management policy, as well as risk appetite and tolerance levels for approval by the Municipal Manager.
- 8.4.2 Communicating the risk management policy, risk management strategy and risk management implementation plan to all stakeholders in the Municipality
- 8.4.3 Setting up of the risk management structure and risk management reporting lines within the institution
- 8.4.4 Continuously driving the risk management process towards best practices
- 8.4.5 Developing a common risk assessment methodology that is aligned with the municipality's objectives at strategic and operational levels for approval by the Municipal Manager.
- 8.4.6 Coordinating risk assessments within the municipality on a regular basis
- 8.4.7 Sensitising management timeously of the need to perform risk assessments for all major changes, capital expenditure, projects, institutional restructuring, and similar events and assist to ensure that the attendant processes, particularly reporting, are completed efficiently and timeously.
- 8.4.8 Participating in the development of the combined assurance plan for the institution, together with internal audit and management.
- 8.4.9 Ensure effective information systems exist to facilitate overall risk management improvement within the institution.
- 8.4.10 Continuously transferring risk management principles and practices through training interventions, to all stakeholders within the institution.
- 8.4.11 Advising management in the development of financing structures
- 8.4.12 Performing an analysis to identify emerging risks facing the institution for further action and investigation.
- 8.4.13 Collating and consolidating the results of the various assessments within the institution.
- 8.4.14 Analysing the results of the assessment process to identify trends, within the risk and control profile, and develop the necessary high level control intervention to manage these trends.
- 8.4.15 Compiling the necessary reports to the Risk Management and Fraud Prevention committee and Audit committee
- 8.4.16 Providing input into the development and subsequent review of the fraud prevention strategy, business continuity plans, occupational health and safety, environmental policies and practices and disaster management plans.
- 8.4.17 Compile and maintain the risk register and reports on risk management activities; and conduct regular risk monitoring.

8.5 Risk Champions

- 8.5.1 Empowers officials to perform adequately in terms of risk management responsibilities through proper communication of responsibilities, comprehensive orientation, and on-going opportunities for skills development.
- 8.5.2 Maintain the functional risk profile within the municipality's risk tolerance and appetite.
- 8.5.3 Provides report on the functional risk management consistent within the municipality's reporting protocols.
- 8.5.4 Aligns the functional and municipality's risk management methodologies and processes.
- 8.5.5 Maintain a harmonious working relationship with the manager risk management and supports him/ her in matters concerning the functions of risk management.
- 8.5.6 Raise the profile and benefits of risk management amongst Directorates from day-to-day business as usual.
- 8.5.7 Challenge the content of the strategic risk register to ensure that it reflects any significant new risks emerging and that monitoring systems are suitably robust.

8.5.8 Be a focal point by which managers/ team leaders can feed views to the formal risk management process thereby including operational risk management in directorate management teams.

8.5.9 Ensure the practice of managing risk is made intrinsic to all municipal activities.

8.6 Other Officials

Other officials shall:

8.6.1 Integrate risk management into their day-to-day activities;

8.6.2 Ensure that their delegated risk management responsibilities are executed and continuously report on progress against planned mitigation;

8.6.3 Participate in risk identification and risk assessment within their respective units;

8.6.4 Implement the risk responses to address the identified risks;

8.6.5 Provide information and cooperation with other role players;

8.6.6 Maintain and monitor the functioning of the internal controls.

8.7 Audit Committee

The Audit Committee is an independent committee responsible for oversight of the Council's control, process, governance and risk management. The responsibilities of the Audit Committee regarding risk management are formally defined in its charter. The Audit Committee provides an independent and objective view of the Municipality's risk management effectiveness.

8.7.1 Setting strategic directions with regards to the establishment of Risk Management Strategy.

8.7.2 Evaluation of whether management is setting the importance of risk management culture within the municipality.

8.7.3 Monitor whether the risk management systems are effective and integrated with IDP objectives.

8.8 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.

8.9 Executive Authority

The Mayoral Committee 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.

9. Risk Identification and Tolerance

9.1 Risk Identification

The Municipality will consider and assess the risk implications of all actions it undertakes in relation to both existing and proposed activities, systems 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.

9.2 Maximize risk exposure/risk tolerance

The Municipality will accept a commercial level of risk that does not threaten the long-term sustainability of the Municipality.

Where new risks arise, which exceed the stipulated measures set by the Municipal Manager and the Chief Financial Officer, they will be:

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

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

- Accept the risk;
- Reduce the risk;
- Spread the risk;
- Transfer the risk;
- Avoid the risk;
- Monitor the risk.

9.3 The municipality's Risk Tolerance can be defined by reference to the following components:

9.3.1 Acceptable Risks

- a) All officials should be willing and able to take calculated risks to achieve the municipality's objectives and to benefit the municipality. The associated risks of proposed actions and decisions should be properly identified, evaluated and managed to ensure that exposures are acceptable.
- b) Within the municipality, particular care is needed in taking any action which could:
 - Impact on the reputation of the municipality;
 - Impact on performance;
 - Undermine the independent and objective review of activities;
 - Result in any fines by regulatory bodies; or
 - Result in financial loss.
- c) Any threat or opportunity which has a sizeable potential impact on any of the above should be examined, its exposures defined and it should be discussed with the appropriate line manager. Where there is significant potential impact and high likelihood of occurrence it should be referred to the risk management and fraud prevention committee.

9.3.2 Prohibited Risk Areas

- a) The Municipality's policies and guidelines should show if there are any mandatory processes and procedures which should be complied with, e.g., the MFMA. Full compliance with these standards is required and confirmation of compliance will be

sought in the Municipality's annual report. Non-compliance with prescribed procedures constitutes an unacceptable risk.

- b) Some risks are acceptable provided the prescribed organisational process is followed, e.g., expenditure proposals, staff recruitment, and designated responsibilities/authorities are adhered to.

10. Risk Framework

- 10.1 The Municipality will maintain a Strategic risk register as a basis for implementing and monitoring the risk management activities. This profile will include details of the *Impact and Likelihood* of each of the risks identified, indicate *Ownership/Responsibility* and specify an *Action Plan* for treatment. This will be reviewed and updated yearly. Progress of the risk management programme will be a standing top management meeting agenda item.
- 10.2 To help to meet their responsibilities to identify, evaluate and manage operational risks, departments should maintain:
- 10.2.1 An operational and strategic risk profile which details the priority (impact and likelihood) and ownership within the departments.
- 10.2.2 A risk management action plan
- 10.2.3 Evidence of regular reviews and monitoring of the profile and action plan, e.g., minutes of committee meetings.

11. Assurance

- 11.1 The use of this risk management approach should help to identify areas of great concern for a detailed review.
- 11.2 The Strategic Risk Profile will assist the Internal Audit Function to direct its limited resources to those areas of great concern. For the strategic risks identified by management, internal audit will evaluate the effectiveness of the existing controls and risk management responses. The internal audit assurance will include an assessment of the reliability and effectiveness of the municipality's overall Risk Management programme.

12. Risk Measurement

Risk is to be assessed by considering estimates of likelihood, severity and consequence. Risk analysis may be undertaken using both quantitative and qualitative measures. Where possible all risk exposures should be measured using a quantitative or financial outcome and/or human resource implications.

13. Policy review and approval

In terms of the MFMA all policies must be reviewed and approved by council on an annual basis.

1. Compiled by


Risk Management Unit:


21 June 2021
Date

2. Recommended by


Chairperson: RMEPC

29/06/2021
Date

3. Approved by


Municipal Manager

29/06/2021
Date